



Aviation Outlook 2026: Impact of the Iran Conflict on Passenger Aviation

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Section 01

Executive Summary



Executive Summary

The U.S.–Iran conflict has created a severe and fast-moving shock for global aviation, with airspace closures, operational disruption and surging fuel prices combining to place immediate pressure on airlines.

Airspace restrictions in the Middle East have disrupted a critical corridor linking Europe, Asia and Africa, forcing cancellations, delays and longer routes that increase fuel and crew costs. Gulf carriers are most exposed, but impacts are spreading globally through cancellations, reduced reliability and higher insurance costs. At the same time, jet fuel prices have surged, driving margin pressure, especially for smaller and unhedged airlines, forcing companies to think carefully about when and how much to raise airfares and fees.

More broadly, the current ceasefire is fragile but likely to extend. Negotiations are ongoing, and outcomes will be driven by U.S. commitment, Iranian leverage over the Strait of Hormuz and Gulf alignment.

Even as conditions stabilize, the effects of the disruption are likely to endure through elevated cost bases, reconfigured global networks and increasing divergence in airline performance. This report draws on Teneo's extensive experience in the global aviation sector to assess the implications of the conflict for capacity, routing, airfares and airline performance across regions in the near term.

Given the rapidly evolving nature of the situation, the context and data presented in this report reflect conditions at a specific point in time and may change as events develop. Regardless, the insights remain relevant due to their applicability to broader structural dynamics, including how geopolitical and economic shocks affect airlines.

Airlines and their partners should be considering the following key strategic topics as they navigate the current disruption:

1. Balancing margin protection and market positioning. Airlines face rising fuel and operational costs, forcing decisions on where to fly and how much to increase fares. They will need to balance capacity discipline and cost control with maintaining presence on strategic routes.
2. Enhancing network resilience. Airspace disruption has exposed dependencies in hub models, particularly on Europe–Asia routes. Airlines may need to diversify routing, partnerships and network structures to reduce geopolitical risk..
3. Strengthening fuel and cost management strategies. Fuel price volatility is driving performance divergence. Hedging strategy, fuel efficiency and cost discipline will be critical to maintaining flexibility and resilience.
4. Assessing opportunities from market dislocation. Stronger airlines may be able to act selectively, including capacity expansion, slot access or opportunistic M&A, as weaker competitors face financial pressure.

How airlines prioritize these areas will shape resilience, competitive positioning and performance through the current disruption and beyond.



Section 02

Impact of U.S.– Iran Conflict

The U.S.–Iran conflict has shut down airspace, created massive operational disruption for airlines through cancellations and rerouting, and driven a surge in fuel prices and operating costs, placing acute pressure on airline margins.

U.S.–Iran Conflict: Summary & Impact on Aviation

The ongoing conflict in Iran poses a significant geopolitical challenge for airlines operating across the region due to airspace closures, operational impacts and increased fuel costs.

The U.S.–Iran ceasefire has created space for diplomacy, but the truce is fragile as maritime pressure and nuclear disputes are unresolved.

The Strait of Hormuz matters because it turns a regional conflict into a global economic problem. Disruption there affects oil flows, prices and shipping costs.

Sustained disruption and fear are enough to move markets.



U.S. troop deployments in the Middle East exceed c.50,000, indicating a possibility of “boots on the ground”



Houthi rebels have re-entered the conflict, launching missile attacks on Israel and threatening traffic in the Bab el-Mandab Strait



Iran has targeted critical oil and LNG infrastructure in neighboring Gulf states in retaliation for attacks



Escalation will lead to further oil supply disruptions, facing the possibility of dual disruption to Hormuz and Bab el-Mandab straits



The conflict is currently in an escalation-de-escalation cycle rather than a stable ceasefire

Due to the ongoing conflict, Teneo observes three key impacts on the global aviation industry:



Airspace Closures

The Iran conflict has led to **widespread airspace restrictions across the Middle East**; airlines are being forced to reroute around high-risk zones, materially increasing flight times, fuel burn and congestion in alternative airspace.



Operational Challenges

Network planning has become materially more complex, with carriers needing to redesign routes, adjust crew scheduling and account for payload constraints.



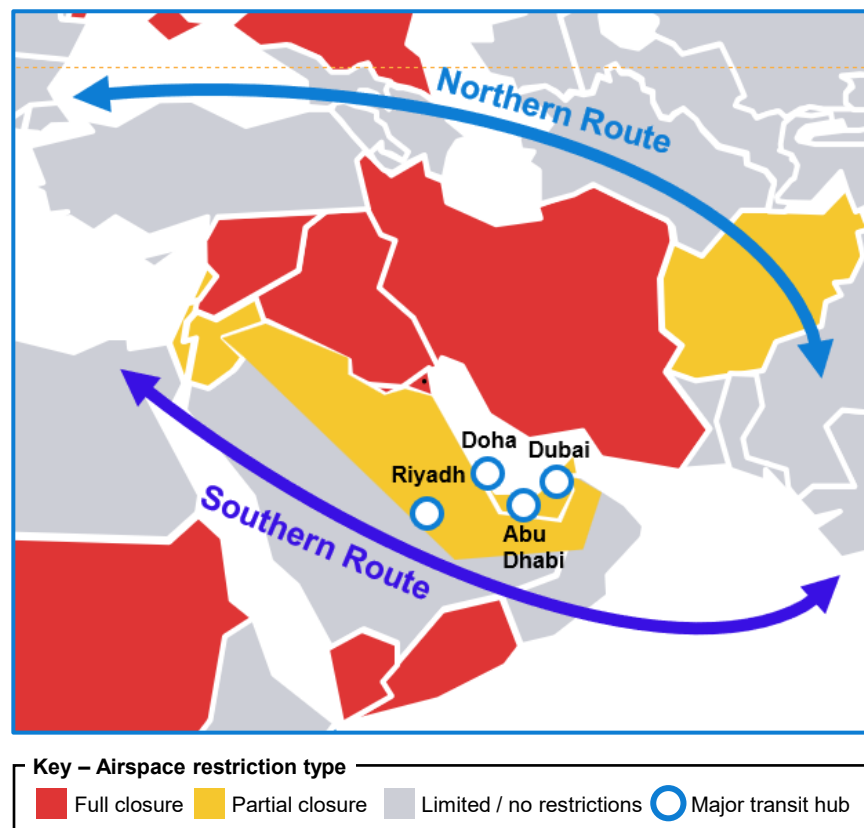
Increasing Fuel Prices

Increasing risks to the oil supply have had a knock-on impact on jet fuel, pushing up prices, the effect of this is exacerbated by longer rerouted flight paths caused by airspace closures.

Airspace Restrictions

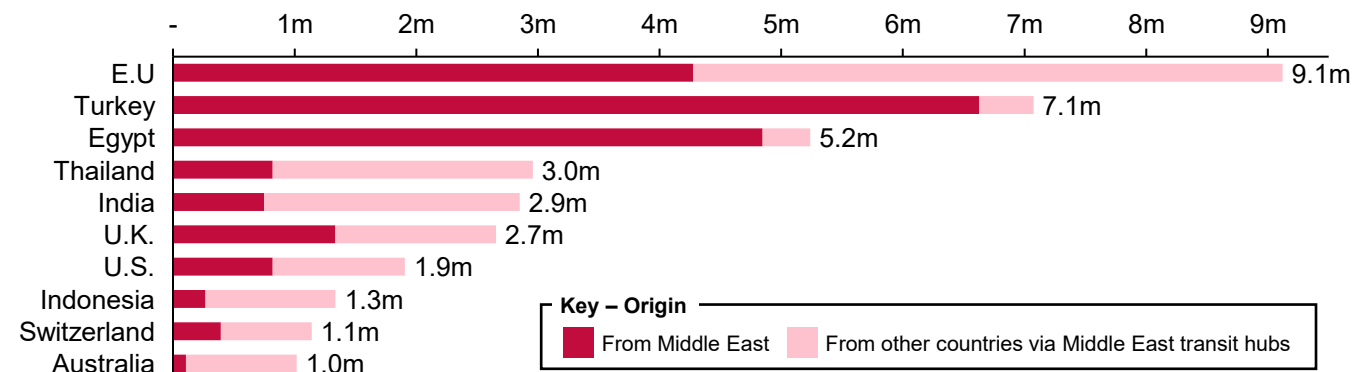
Closures of airspace across Iran and neighboring countries have led to mass disruptions to flight routes and key transit hubs in the region. Disruptions are likely to continue despite the ceasefire.

Airspace across 10 countries in the Middle East remains fully or partially closed



International traffic has been disrupted by longer flight times and cancellations

Annual international passenger arrivals at risk by selected destination countries¹



In response to the ongoing conflict, multiple countries in the region have closed or restricted airspace to international carriers. This has forced airlines to reroute flights, leading to **increased fuel consumption, journey times and labor costs.**

Approximately **c.56m annual visits** transiting or originating in the Middle East **are at risk**, with a further c.60m visits outside of Middle East transit routes likely to face **higher costs and disruption** due to tightened capacity.

International flight traffic through the region has been forced through two narrow travel corridors: the Northern Route via the Caucasus and Afghanistan, and the Southern Route via Egypt and Saudi Arabia. Congestion on both routes has caused **widespread delays and cancellations.**

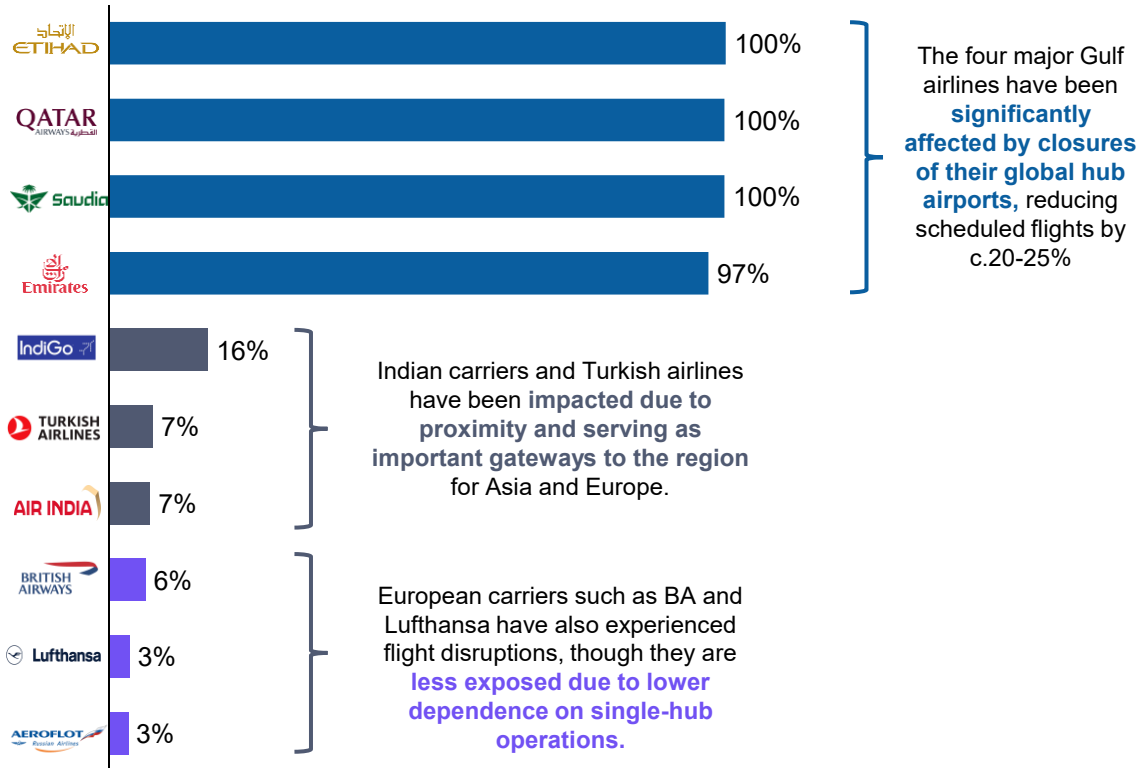
Disruption is being **driven by risk perception** (insurance, safety, uncertainty) **as much as by formal closures.** Even if airspace reopens, **normalization will lag** due to these factors.

Operational Challenges

Gulf carriers are being hit hard by the closure of their global hubs, while any airline with high exposure to Asia Pacific or Middle East transit routes is experiencing shocks from plunging revenues and rapidly escalating costs.

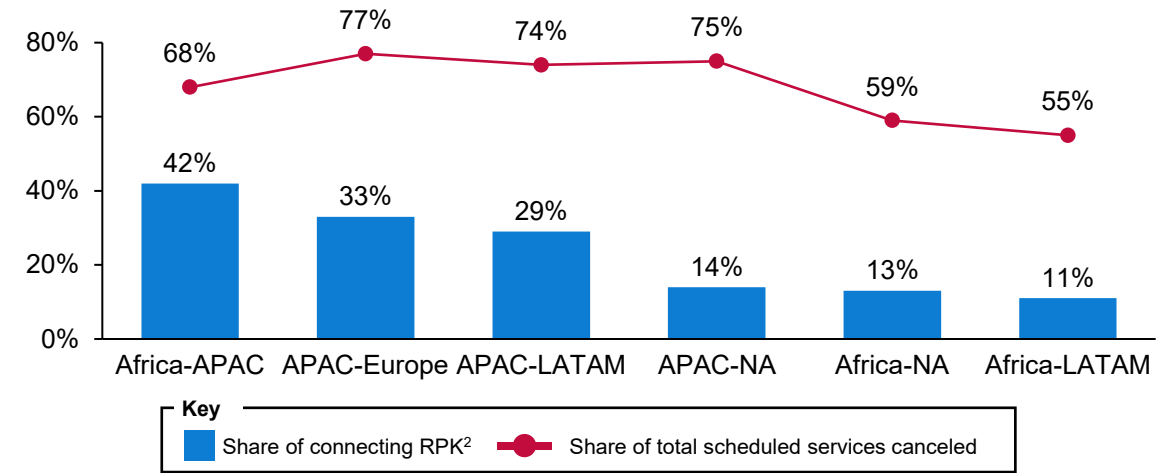
Gulf carriers have been the most impacted due to heavy reliance on global hub operations in the region

% exposure to Middle East; Top 25 airlines by ASK²



Transit routes to and from Asia have seen the highest level of operational disruption

% of total transiting RPK² / % of scheduled services canceled



Given its strategically important location, the Middle East accounts for c.10% of global transit RPKs; since the start of the conflict, **50,000+ flights** have been canceled or impacted.

Routing of flights has led to **higher fuel burn, aircraft rotation disruption and longer crew duty times**, which have lowered margins even on flights that have historically performed well.

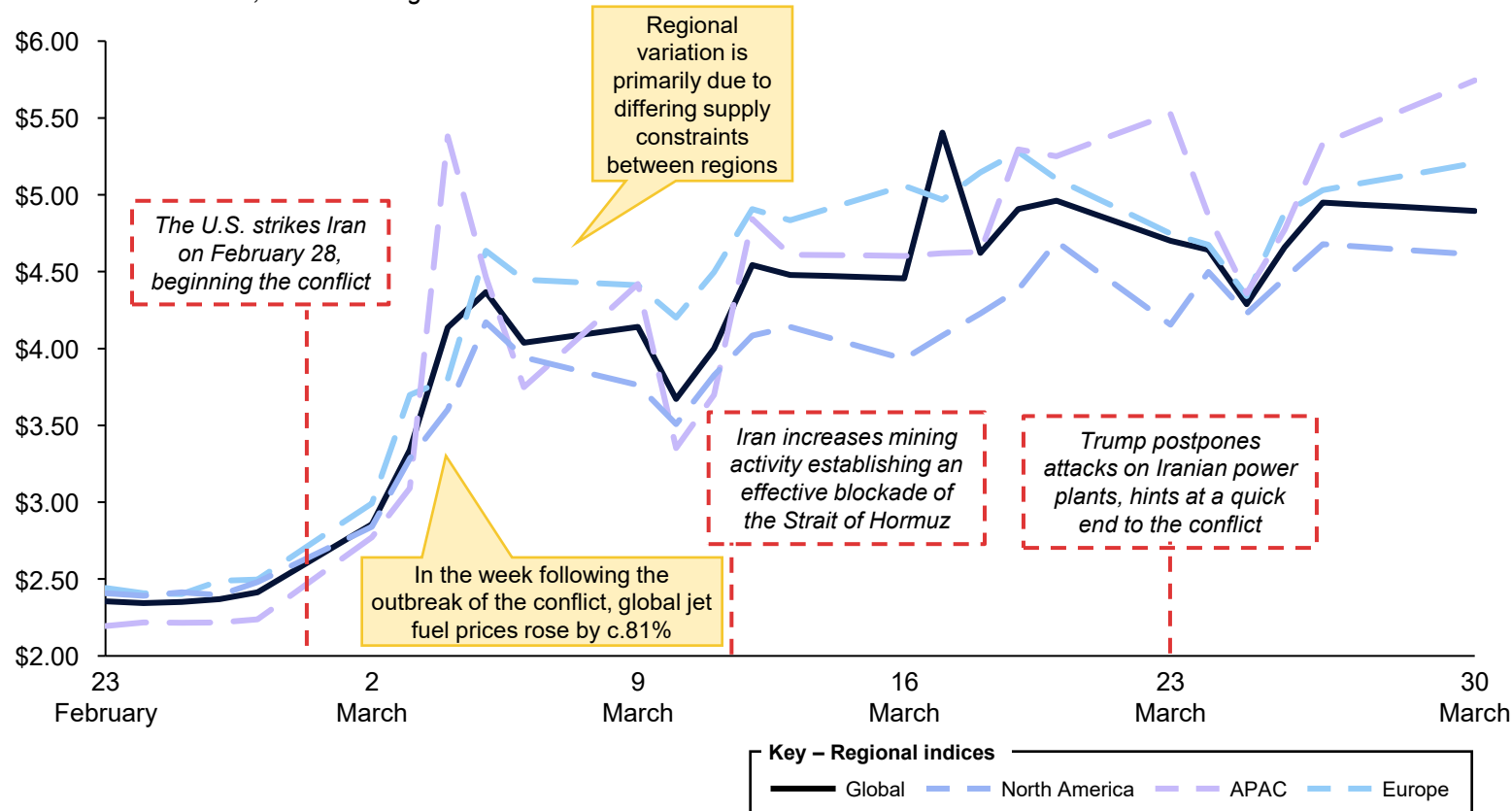
Insurance premiums have surged as a result of the conflict, putting even more pressure on margins; per-round trip **insurance premiums** on widebody and narrowbody jets have **increased by 6-7x** since the start of the conflict.

Fuel Price Increases

Airlines' cost bases have been significantly impacted by the surge in jet fuel prices, driven primarily by closures of key oil supply routes in the Gulf.

The price of jet fuel has more than doubled since the beginning of the conflict

Platts Jet Fuel Index, U.S. dollars/gallon



Strait of Hormuz Closure

The Strait of Hormuz **normally carries about 20% of global oil supply**. Tanker traffic **collapsed by 70–80%**, choking crude and refined-product flows, which includes jet fuel.



Gulf Production and Refinery Outages

The conflict has led to a **loss of c.50% of Gulf states' refining capacity**¹; jet fuel has suffered because **other regions cannot rapidly increase middle distillate** to replace supply.



Cost Pass-Through Dynamics

Airlines typically uplift fuel on a per-flight or per-day basis, leading to immediate impacts on operating costs. **European suppliers typically rely on inventories of only c.1 month**.



Energy Impacts Beyond Oil

Issues such as **LNG disruption in Qatar** and **rising gas prices in Europe and Asia** increase the likelihood of a **sustained energy risk premium**, even if Gulf flows partially recover.

A person with a backpack is seen from behind, looking at large flight information screens in an airport terminal. The screens display flight data in red and yellow text. The person is holding a suitcase handle.

Section 03

Industry Responses

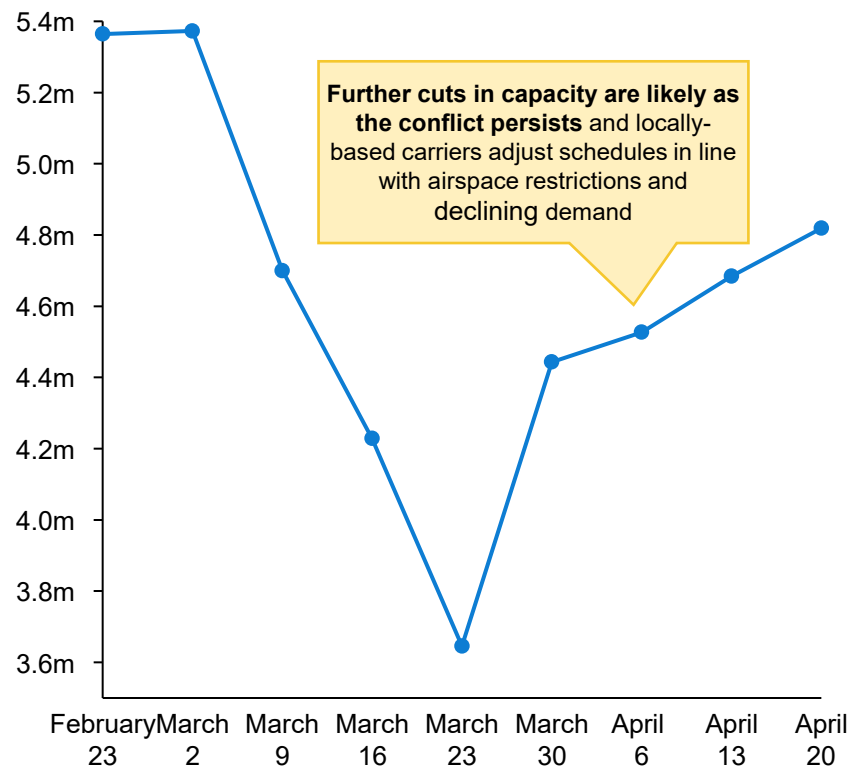
Airlines are responding to disruption by cutting and reallocating capacity, rerouting flights and cautiously raising fares. Sustained fuel cost pressure and varied hedging positions will drive widening performance gaps and have the potential to reshape competitive dynamics across the industry.

Capacity

Airlines have largely canceled rather than redeployed capacity, with some exceptions.

Scheduled airline seats remain below pre-conflict levels, with a third of weekly capacity eliminated

Scheduled seats (one-way) to and from the Middle East



Where capacity has been redeployed, it has largely been between Asia and Europe to continue capturing leisure demand that has moved away from the Middle East and towards key Asian and European holiday destinations.

**Lufthansa**

April 1

Announced additional flights on Hyderabad, Chennai, Delhi and Bangalore routes, plus a second daily Zurich–Delhi service

**BRITISH AIRWAYS**

March 26

Announced the addition of additional seats on popular leisure routes, including four extra Singapore flights and three extra Bangkok flights

**AIR INDIA**

March 8

Announced 78 additional flights on nine routes between 10–18 March, adding 17,660 seats for key destinations such as London, Paris and Zurich

Routing

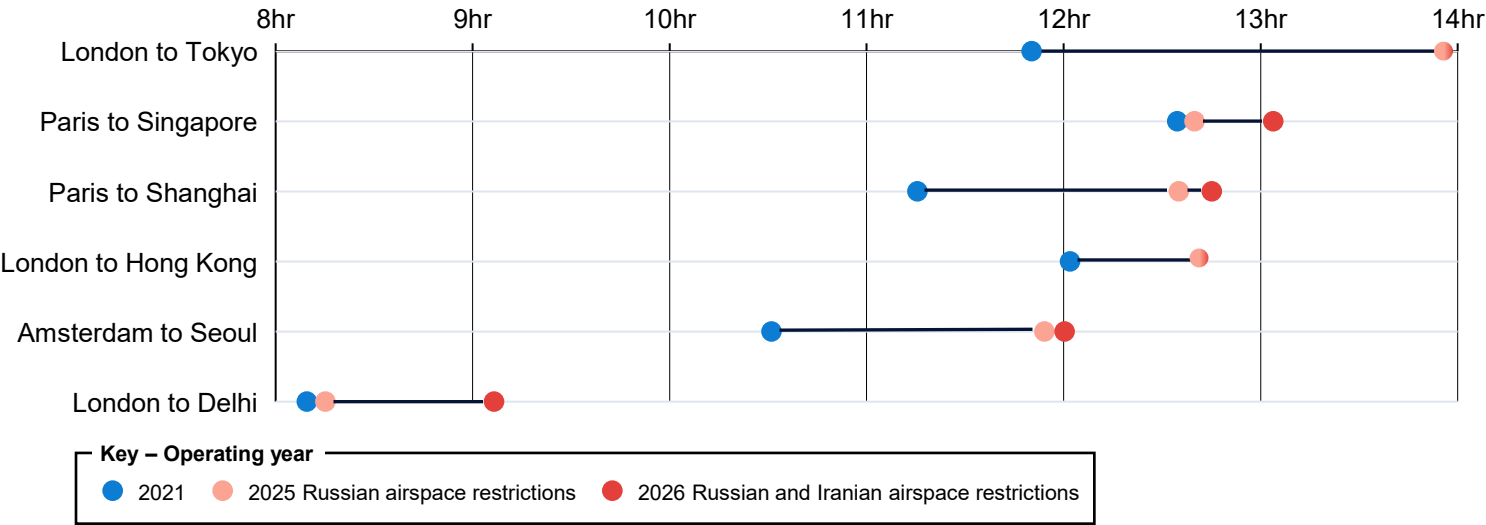
Airlines are rerouting where they can, but this creates a double hit from higher fuel burn and fuel prices, sharply raising Europe-Asia route costs.

Impact on global aviation since the start of the Iran conflict

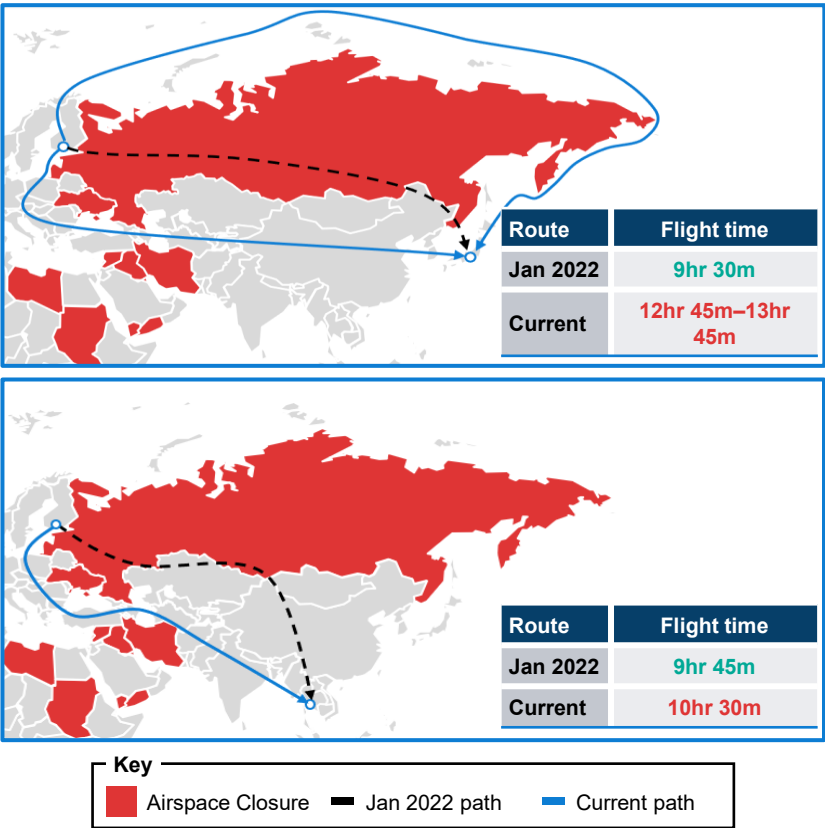
- Europe-Asia routes face the largest cost shock due to extended routings, with route-level operating costs increasing by up to c.80%
- The **northern route** through the Caucasus is **most congested**, increasing risks of delays due to weather or equipment malfunction. The potential for new geopolitical conflicts (e.g., India-Pakistan) will likely constrain routing further
- **Instability beyond Iran** (Caucasus, South Asia) mean **routing inefficiencies are likely to persist** in the form of further congestion and insurance risk

Asia-Europe flight times have increased due to airspace closures

Average scheduled flight time, hours; March 10-16 of each year



Helsinki-Asia route times increased substantially in recent years

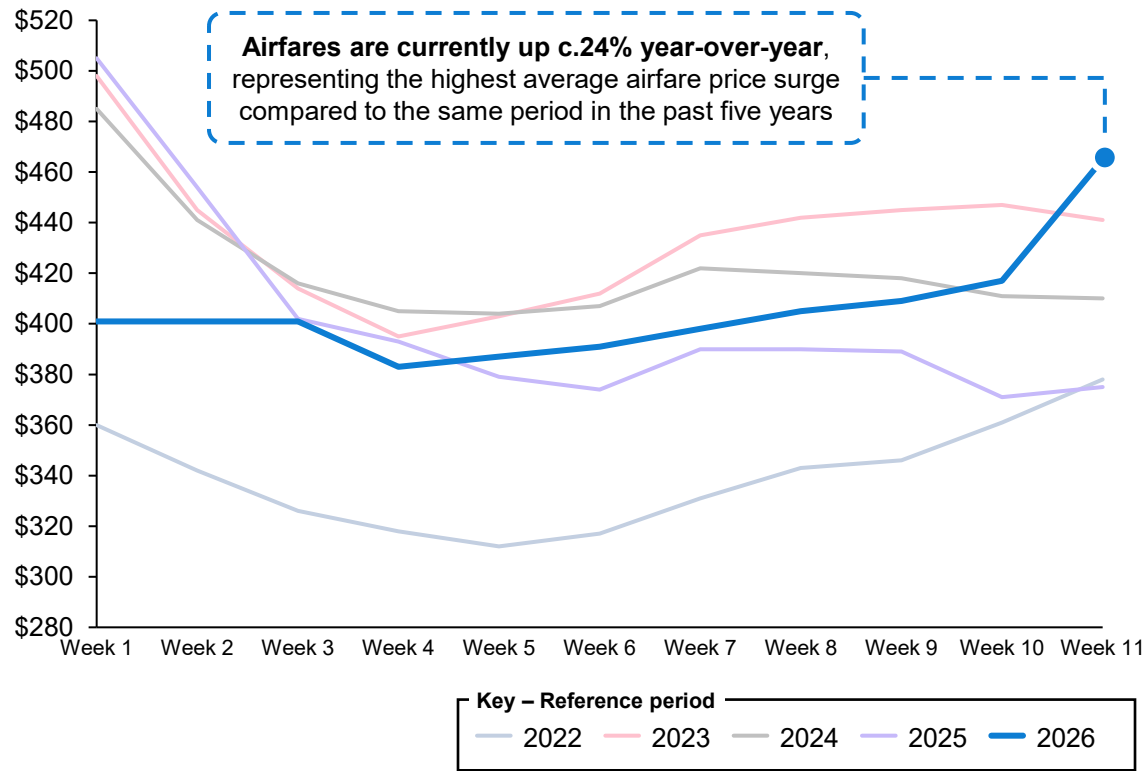


Airfare Dynamics

Airlines are raising airfares for forward bookings, primarily seen in prices for Europe-Asia routes.

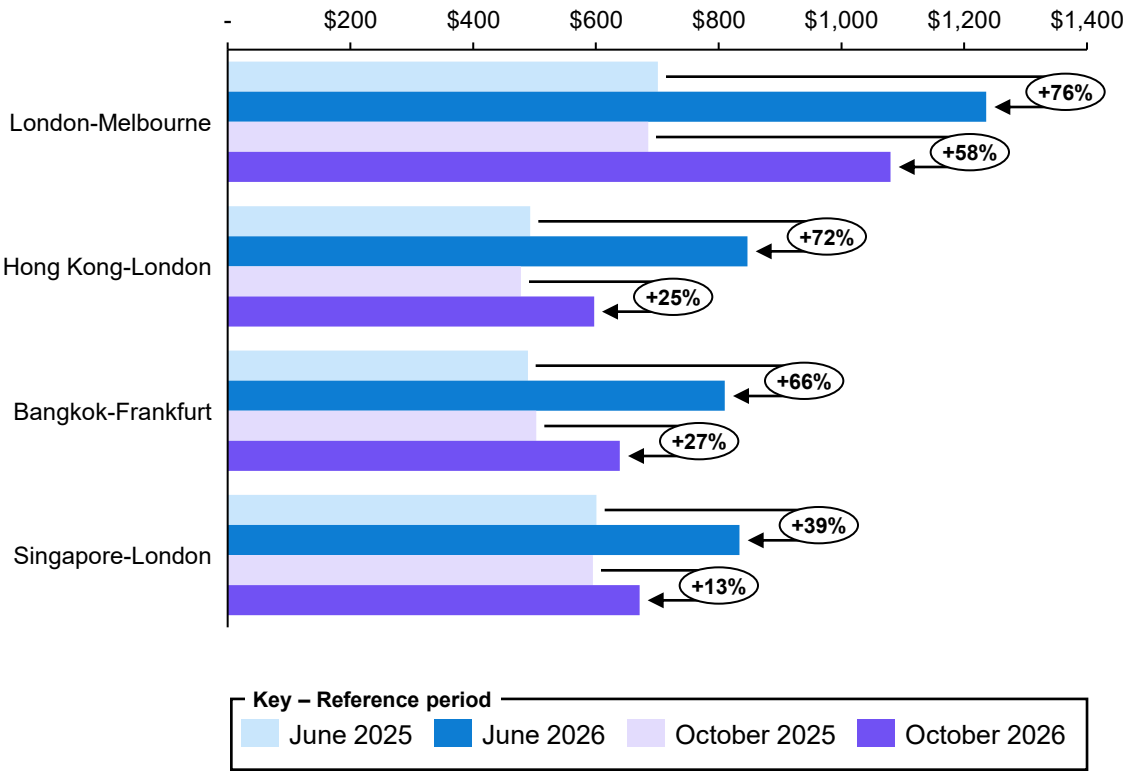
Sharp increases in airfares have been observed across global carriers, driven by cost and capacity challenges

Lowest average economy fare, U.S.\$



Fare hikes have primarily been driven by Asia-Europe routes that have seen the most severe capacity restrictions due to airspace closures

Lowest average economy fare, U.S.\$

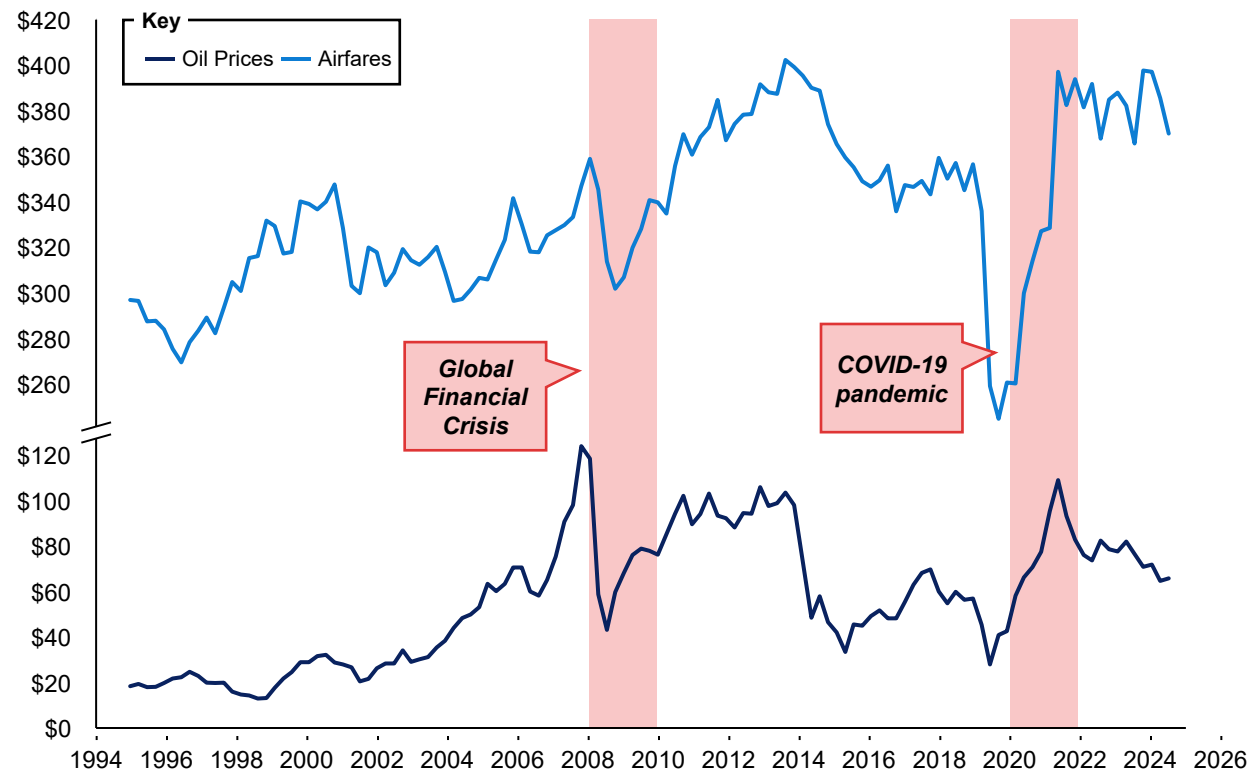


Airfare Dynamics

Airlines are assessing how the global shock to oil markets will force further airfare increases, although the full effects may not be felt for months due to fuel hedging strategies and other competitive considerations.

Sharp correlated movements between oil prices and airfares are typically the result of widespread economic events

Average domestic airfare / price per barrel crude oil (WTI), U.S.\$



Fuel hedging smooths volatility and reduces the immediate impact of oil price swings on operating costs; airlines vary significantly in the degree to which hedging is used (see next page).



Pricing is also shaped by price elasticity, competitive responses and route economics; a unilateral price increase risks airlines losing market share or yields.



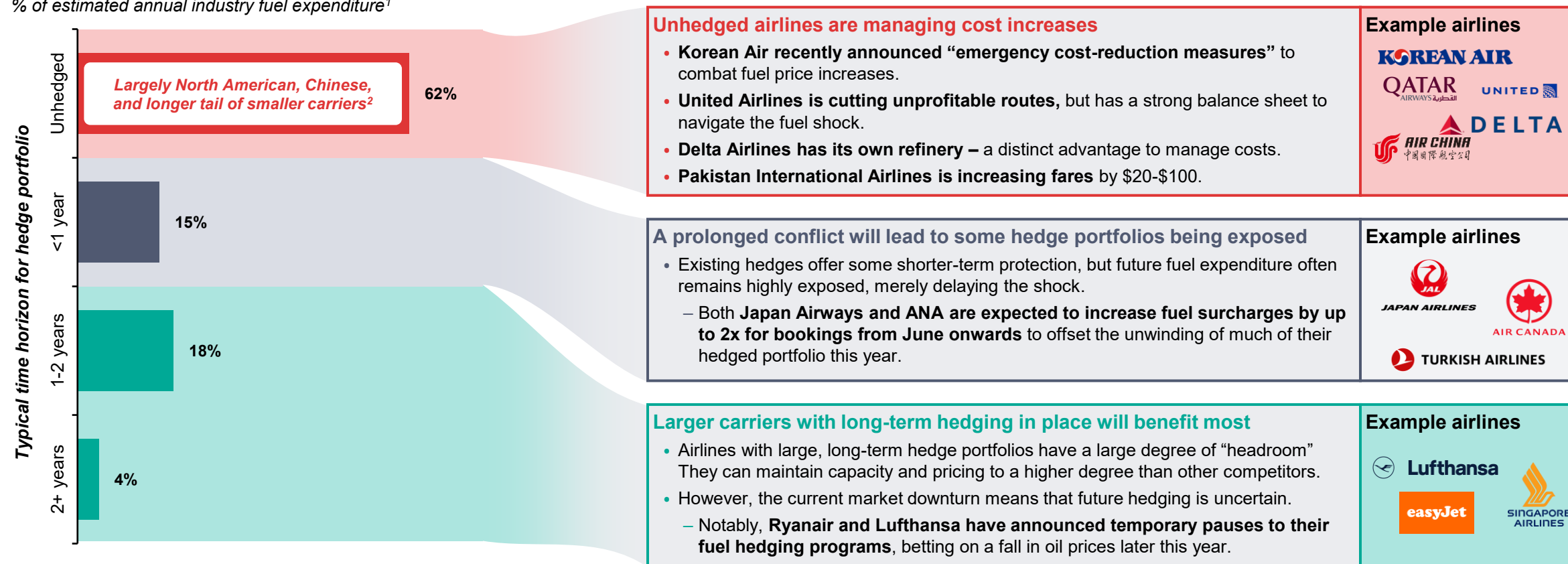
Energy shocks risk reversing global disinflation trends, influencing central bank decision-making and strengthening the macro linkage to increased price pressures.

Margin Impact

Airlines are managing margin pressure from higher oil prices. This will primarily impact unhedged airlines in the near term and increase in scale as fuel hedge contracts unwind.

Most airlines are unhedged or very lightly-hedged. These are the ones most likely to bear the brunt of oil price shocks in the near term

% of estimated annual industry fuel expenditure¹

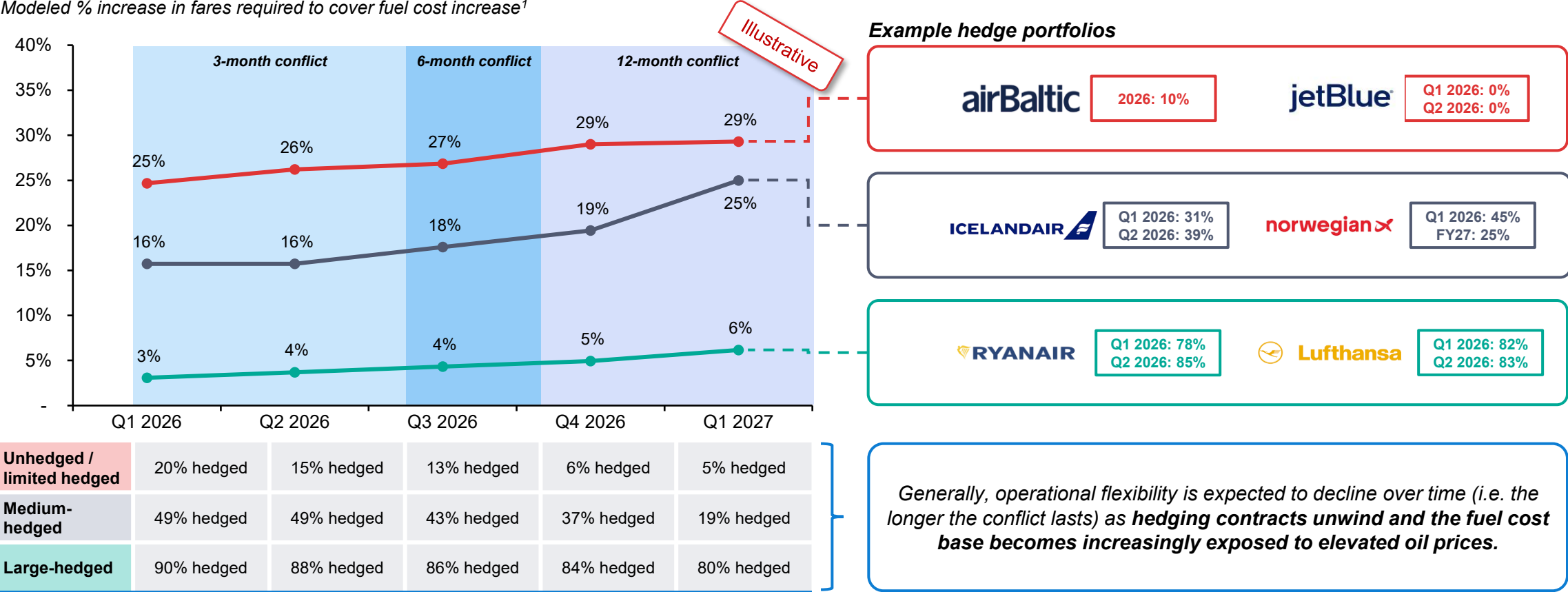


Margin Impact

Airlines will have different strategic options to explore based on their hedge positions; large European and Asian carriers with long-term contracts will likely have more flexibility to pursue aggressive competitive plays.

Airlines with more extensive hedging in place will likely be less reliant on fare increases to cover margins, enabling greater strategic flexibility

Modeled % increase in fares required to cover fuel cost increase¹





Section 04

Strategic Opportunity

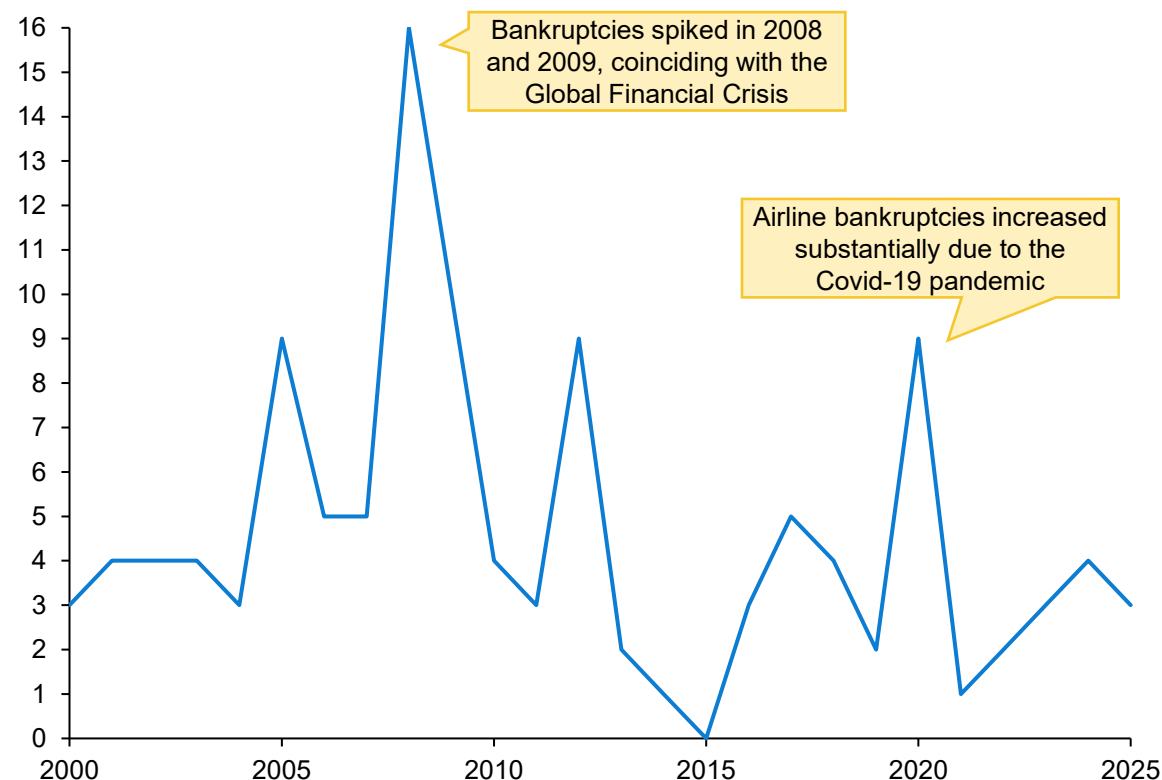
We expect that airlines in stronger financial positions will use post-crisis dislocation to acquire distressed competitors, assets and market share at discounted valuations, strengthening their long-term competitive position.

Strategic Opportunity

Balance sheet strength, network exposure and financial flexibility from fuel hedging contracts will determine which airlines can deploy capital and capture opportunities arising from this market shock.

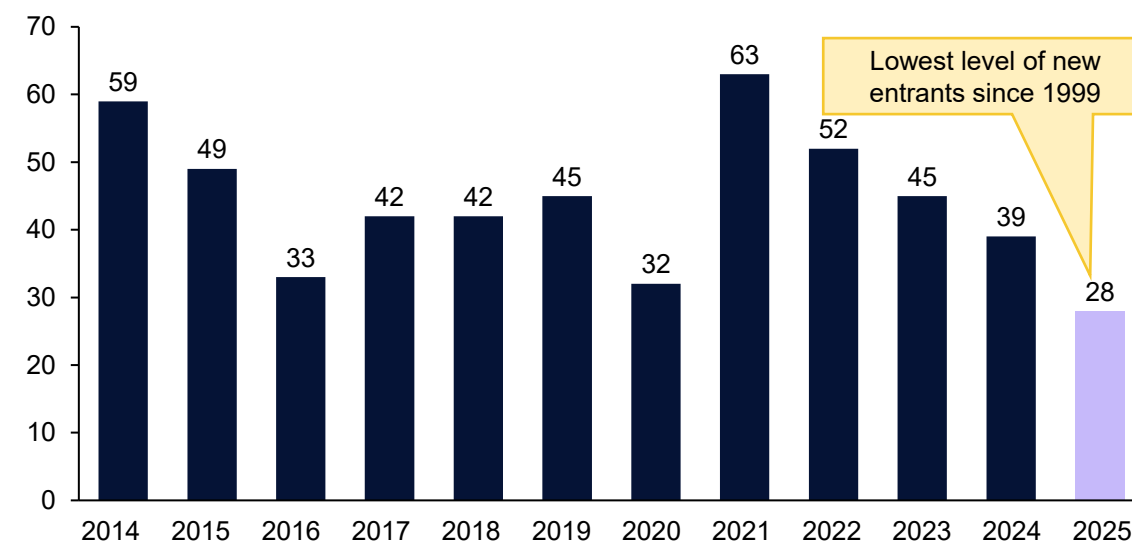
Bankruptcies spike during economic shocks, increasing distressed asset supply

of passenger airline bankruptcies per year



New airline entry has fallen to multi-decade lows, limiting new competition

airlines starting operations per year



Airline and asset acquisitions will likely be possible at **distressed valuations**.

Airlines may take advantage of routes that are abandoned or reduced by distressed carriers to **capture new market share**.

With new airline entry at a multi-decade low despite high demand, this shock is likely to translate into **sustained consolidation and market share gains for financially strong carriers**.

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