

Middle East conflict: a blow for airlines on the East-West corridor

The conflict in the Middle East has already led to more than 10,000 flight cancellations, leaving large numbers of passengers stranded and causing major disruption across global travel networks. For airlines, the financial and operational impact is significant



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Intercontinental carriers in the eye of the storm

The outbreak of war in the Middle East on 28 February triggered an immediate wave of flight cancellations across the region. Beyond disrupting travel, it has further complicated intercontinental airspace at a time when geopolitical routing constraints were already high. Over the past decade, the Middle East has become increasingly important for global aviation, with rapidly developed hubs in Abu Dhabi, Doha and Dubai – now the world’s busiest international airport – sitting at the heart of East West traffic corridors. As a result, the war affects not only travel to and from the Middle East but also key connecting routes to India, Southeast Asia, Australia and Europe.

Financially, the biggest hit falls on intercontinental carriers operating in the region and Middle Eastern airlines in particular, while US carriers are less affected. Still, most airlines – especially those without fuel hedges – will feel the impact too. This was reflected in the initial stock

price reactions on 2 March, and will weigh on first-quarter and potentially second-quarter results.

1 Cancellations come with inefficiencies, extra costs and missed revenue

Large airlines with home bases in hubs in the region, including Emirates, Etihad and Qatar Airways, are involved in the mass cancellations, but European and Asian carriers with intercontinental networks have seen a significant impact on operations as well. Major carriers such as Air France, KLM and Lufthansa have suspended flights to the region for at least most of the week. And the operational impact will likely drag on in the weeks to come. When we compare this with the usually shorter disruptions from severe winter weather or strikes, we know this disorder will weigh heavily on financial results in the first quarter.

2 Airlines are now seeing an even more complicated airspace

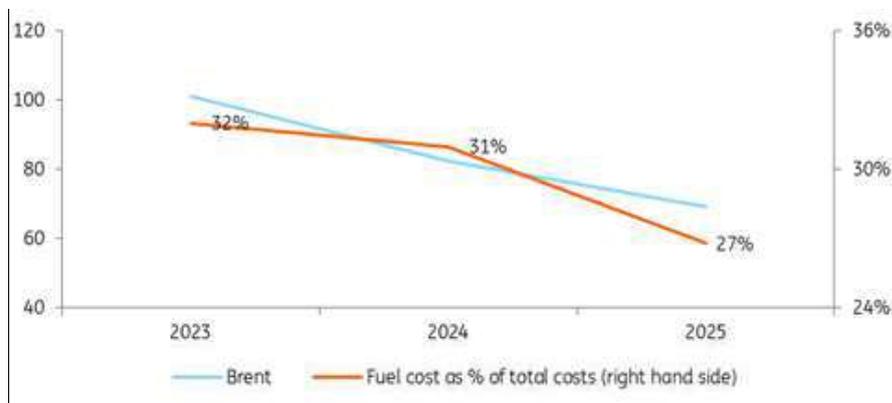
Airlines already operate within a highly sensitive geopolitical landscape, and today's airspace reality is increasingly complex. With Russian airspace closed and multiple Middle Eastern routes now suspended, carriers must navigate a patchwork of restrictions, safety rules and elevated operational risks – making long haul routing more complicated than ever, with rerouted flights and detours. It is still possible to connect East and West, but it could come with longer mileages, flight durations, higher fuel burn and costs.

3 Higher fuel costs will push expenses up – but the impact will vary as hedges soften the blow

Airline fuel costs can account for 20-30% of total airline operating costs, especially for long-haul carriers. When jet fuel prices go up, this quickly leads to higher costs. Jet fuel prices are much more connected to oil price development than fuel prices at the motorway gas station because there are no excise duties available, and most international tickets are also exempted from VAT. Higher fuel prices could quickly lower tight margins in the short run for tickets booked and sold, and airlines will need to adjust their ticket prices to keep revenues up. At the start of the year, oil prices hovered around \$60 a barrel, and at the start of March, they were \$80. We expect oil prices to come down later on this year, but this depends on the evolving conflict.

Fuel accounted for 27% of operating costs last year, and those costs move closely in line with oil prices

Annual brent prices in \$ per barrel and share of fuel costs in total costs for airlines per year (global average)



Source: IATA, ING Research

The impact of this will be uneven, though, and it varies with the extent to which carriers hedged future fuel price rises. This dampens the impact of fuel price volatility in the short term. Several European flag carriers hedge their fuel bills, but it depends on the company's strategy. Air France KLM and Lufthansa fixed fuel costs at 62% and 90%, respectively, at the end of 2025. European low-cost carriers, including Easyjet (80%) Ryanair (around 80%), and Wizz Air (83%) also have high hedge ratios and will largely be shielded from impact as they operate within Europe. Instead, large US carriers American Airlines, Delta Air Lines and United Airlines, usually don't hedge, while Asian carriers also have less conservative policies for managing fuel costs. For US carriers, it means they bear less fallout, but still feel the impact of higher fuel prices.

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