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**Research Briefing | Global**

# Iran war's impact on fuel prices and air passenger demand

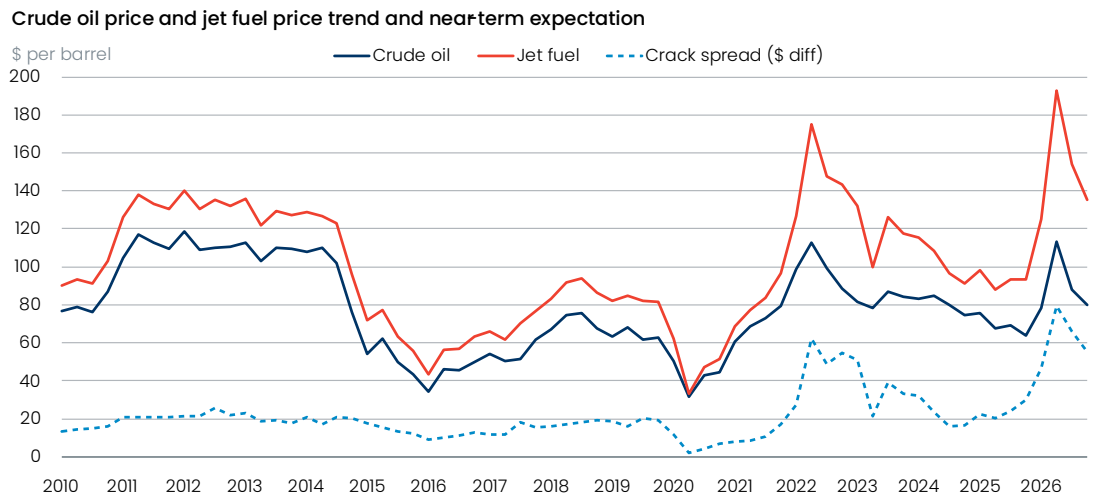
- **Crude oil surged 64% in March 2026 after the US-Israel war on Iran closed the Strait of Hormuz, cutting off 20-25% of global energy and triggering the worst oil price shock since 2022.**
- **The impact on jet fuel costs has been more severe with the crack spread reaching a record $80 per barrel, doubling jet fuel prices in weeks due to tight supply of Gulf crude.**
- **Air fares are expected to rise 5-10%, with fuel surcharges already appearing, though weak demand will limit how much can be passed onto consumers.**
- **Middle East travel is most severely impacted by airspace closures and rerouting costs. Around one fifth of Europe-Asia demand and 10% of North America-Asia demand travels via Middle East and is at risk. Assuming a two-month conflict, recovery is expected to begin by H2 2026, but sentiment may slow the rebound.**
- **Global demand remains broadly resilient, with disruption dragging on growth rather than forcing declines outside the Middle East and Africa.**

## Crude oil jumps, jet fuel jumps higher

Global crude oil prices jumped 64% in March compared to February as a direct consequence of the US-Israel war on Iran. Iran has effectively shut the Strait of Hormuz – the narrow maritime passage through which 20-25% of the world's energy travels daily – including 25-30% of Europe's jet fuel. By halting virtually all exports of oil and natural gas (as well as numerous other critical exports) from the Persian Gulf, buyers have scrambled to purchase what is available elsewhere, driving prices up to levels not seen since Russia's invasion of Ukraine in 2022. Clearly this will cause inflationary convulsions more generally.

Higher crude prices lead to higher jet fuel costs, although differences can be softened or accentuated by changes in the crack spread. While the oil price increase (so far) has been comparable to that of 2022, the increase in jet fuel price has been more pronounced. The crack spread (the cost of refining crude into jet fuel) has hit an all-time high at over $80 per barrel, doubling the cost of jet fuel in a matter of weeks. This is related to tighter supply as the crude oil from the Gulf is particularly well suited for refinement into jet fuel, while there are storage capacity concerns.

Chart 1: Jet crack spread surged to record highs in March 2026




*Sources: Tourism Economics, Haver Analytics*

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## This will hurt airlines – and push up air fares

Jet fuel typically represents 25-35% of an airline's operating costs. For some low-cost carriers, fuel makes up as much as 60% of operating costs. This makes the industry highly vulnerable to oil price spikes. Some airlines are much more vulnerable than others depending on other costs and cash reserves.

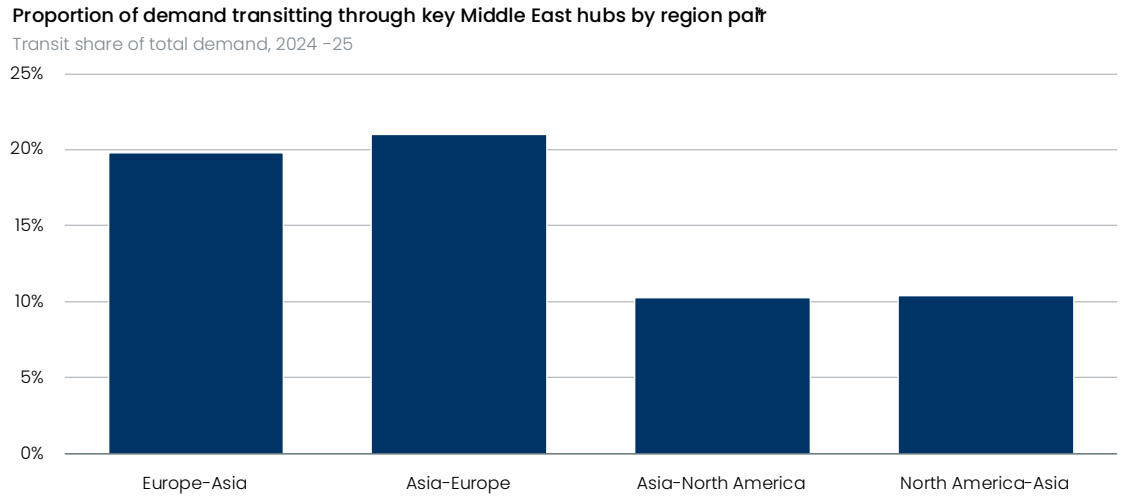
Most US carriers have stopped fuel hedging in recent years so will be more susceptible to increase in costs. Higher fuel costs will, at least partially, need to be passed on to consumers in terms of higher air fares. In the near-term, these airlines will face potential losses if pre-booked ticket prices are honoured as costs rise.

European airlines are more of a mix: Ryanair is in the strongest position with 84% of this quarter's fuel locked in at $77 per barrel. Air France-KLM, Lufthansa, IAG group (which includes British Airways, Aer Lingus, and several others), EasyJet, and Wizz Air are all reportedly well-covered with hedged fuel accounting for a majority of their fuel needs for 2026. Norwegian is more exposed with hedged fuel accounting for roughly 45% of estimated fuel consumption for 2026. Scandinavian (SAS) is among the most exposed in the region. Having adjusted its fuel hedging policy in 2025, it entered 2026 with none of its expected fuel consumption hedged. Consequently, it has since passed added costs onto passengers and has cancelled nearly 1,000 flights in April.

Gulf carriers—particularly Qatar Airways, Emirates, and Etihad—are currently in a strong financial position with sizeable cash reserves giving them a greater buffer to absorb rising costs in the short-run. However, they are exposed given their heavy dependence on long-haul and transit traffic. Long-haul travel will bear the brunt of these hikes as fuel makes up a much bigger share of the ticket price. Continued physical airspace constraints under a prolonged conflict could prompt travellers to shift to alternative hubs. Higher prices may also cause price sensitive travellers to delay or cancel longer trips.

In 2024-25, around one fifth of passengers travelling between Asia and Europe did so via a transit through one of the big three Middle East hubs (Dubai, Abu Dhabi, and Doha), and 10% of passengers travelling between Asia and North America. Airspace closures across the Middle East will add to operating costs by forcing airlines to reroute flights, leading to increased fuel burn per flight.

**Chart 2: Iran war has displaced significant shares of inter-regional travel via Middle East**




*Sources: Tourism Economics, OAG*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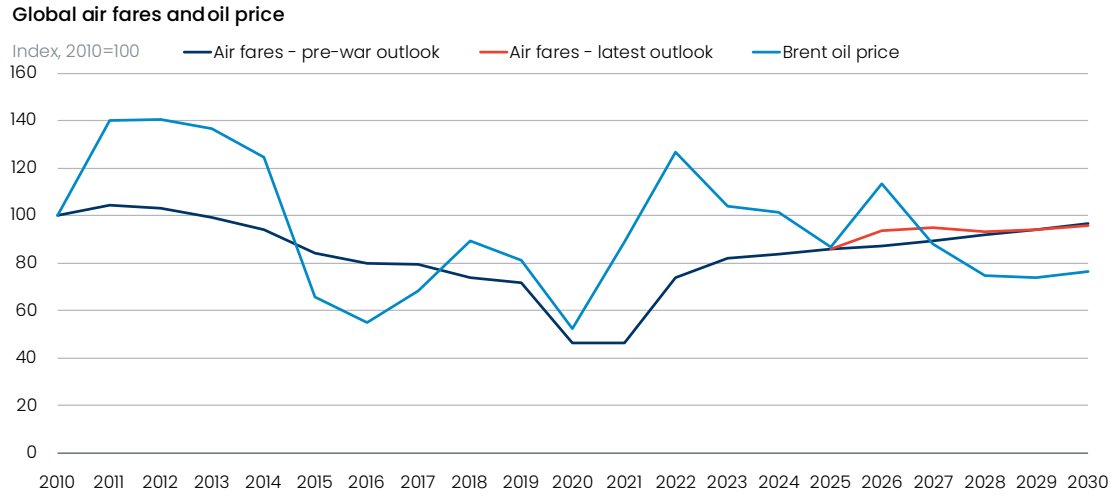
## Impact on air fares and passenger demand

Airlines are already increasing air fares, or adding fuel surcharges, to cover the higher operating costs due to the Iran war. But against a backdrop of weakening demand due to the wider economic consequences of this oil shock, airlines will also be aware of consumer price sensitivity which should mitigate against significant hikes. Oil price shocks do not correlate strongly with global air fares. Our current modelling implies that the higher oil and jet fuel prices from a two-month conflict translates to a 5-10% increase in base air fares.

### Chart 3: Oil price shocks do not lead to air fares shocks

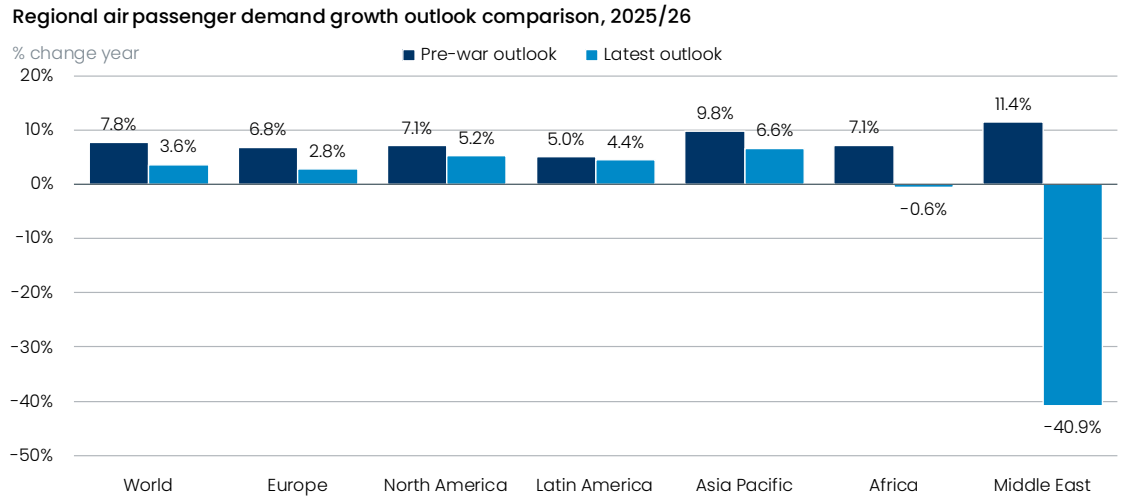



*Sources: Oxford Economics, Air Passenger Forecasts, Haver Analytics*

While this will deter some of the most price sensitive travellers, it is not expected to derail an otherwise positive growth trajectory for global air passenger demand this year outside of the Middle East and Africa. The downgrade for the Middle East is spread across several countries, with much of the downgrade tied to reduced flight activity amid safety concerns and air space closures. In the second half of 2026, it is expected that most if not all regional flight activity will be free to resume - but lingering negative sentiment is likely to lead to a more protracted restoration of pre-war capacity and propensity to travel to/through the region.

For all other regions, there is some loss of demand due to reduced capacity to/from/through the Middle East, in addition to the less favourable macroeconomic conditions which will dampen air passenger demand more generally. These impacts are predicated on a two-month conflict assumption. Should the conflict drag on longer than two months, this would come with some further downside risk to demand.

### Chart 4: Demand growth remains on the table for most regions in 2026




*Sources: Air Passenger Forecasts*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