BCD

INSIGHTS

Iran Conflict: oil prices and aviation

April 2026

Produced by Research & Intelligence
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Summary

As a consequence of the Iran conflict, air travel is now facing the twin challenges of a sharp **escalation in jet fuel costs** and the prospect of **supply shortages**. There's little sign of any material improvement in the situation.

Fuel shortages are now emerging as a real threat, and airlines in Asia Pacific are already adjusting to fuel restrictions in some markets. Some of Europe's biggest air travel markets are also exposed to fuel shortages, although these may not become apparent until some time in May.

Travel will inevitably be impacted by fuel shortages, and travelers should expect some **disruption** not just to flights, but also to ferries and other forms of public transport. But there is action that travel managers and travelers can take to prepare for disruption to travel plans.

Airlines are facing a sudden and sharp increase in one of their largest cost items. Some are more exposed than others, and U.S. airlines in particular must also contend with **higher unit costs excluding fuel**.

Some airlines have already increased fares or introduced/increased fuel surcharges. But growing concerns about the state of air travel demand may limit the **fare increases** they're comfortable making to around **5-10%**, according to Tourism Economics.

Beyond higher fares and increased fuel surcharges, airlines have other options to reduce their exposure to higher jet fuel prices and supply shortages. So far, these have included **capacity cuts** and **ancillary fee increases** on checked bags. In terms of schedule adjustments, routes with the lowest volumes are likely to be the most vulnerable.

Oil prices

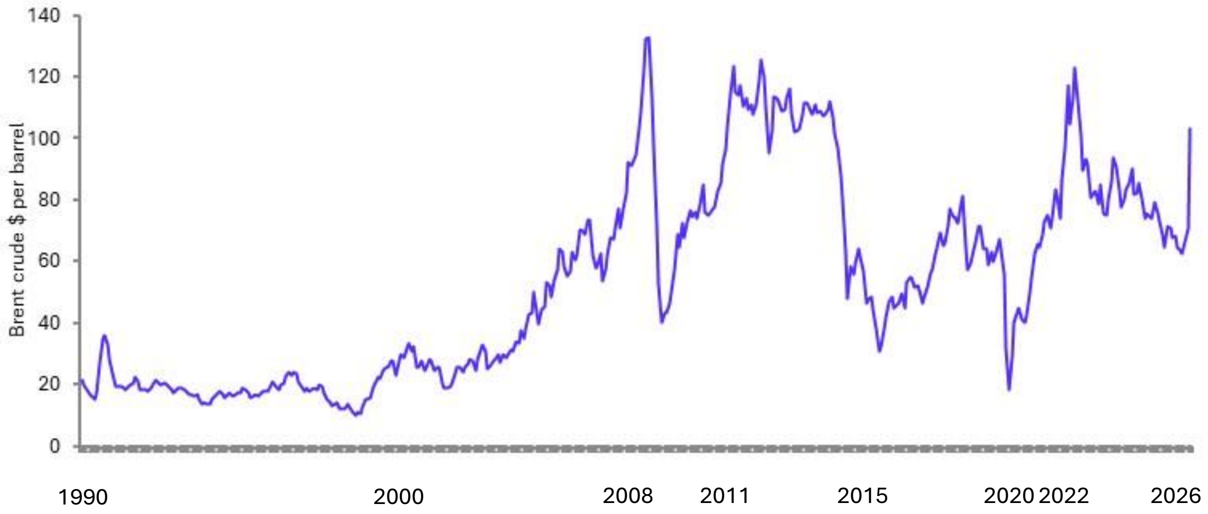
Supply concerns keep prices elevated

Averaging more than $103 per barrel, Brent crude spot prices in March jumped by 45% compared to February's average. With 20-25% of the world's oil and gas energy needs traveling through the Strait of Hormuz, the Iran conflict has driven oil prices up to levels not seen since Russia's invasion of Ukraine in 2022.

With the April 7 announcement of a two-week ceasefire between the U.S. and Iran, oil prices did retreat. But a lot of issues need to be resolved, and the fragility of the arrangement was brought into focus by the failure of the two parties to make much progress in the initial face-to-face talks held over the weekend of April 11-12. With only a limited number of ships making it through the Strait of Hormuz, and likely to be subject to a toll, constraints on oil supplies from the Gulf will continue. The effects of the U.S. imposing its own blockade on the strait are as yet unclear, but they seem likely to worsen the supply situation. Oil prices headed back above $100 in early trading on April 13.

While oil prices are comparable to 2022 levels, jet fuel prices have seen a much sharper increase. With the crack spread premium over crude oil hitting an all-time high of $80 per barrel, airlines have seen the cost of jet fuel double in a matter of weeks. The jet fuel market has additionally been hit by supply constraints and concerns about storage capacity.

Monthly Brent crude oil spot prices $ per barrel since Jan. 1990 [1]



Airlines are facing the twin storms of sharply higher jet fuel prices and the prospect of supply shortages, with the latter's impact being exacerbated by concerns about storage capacity.

(1) U.S. Energy Information Administration

Fuel supply issues

Some markets are facing supply shortages

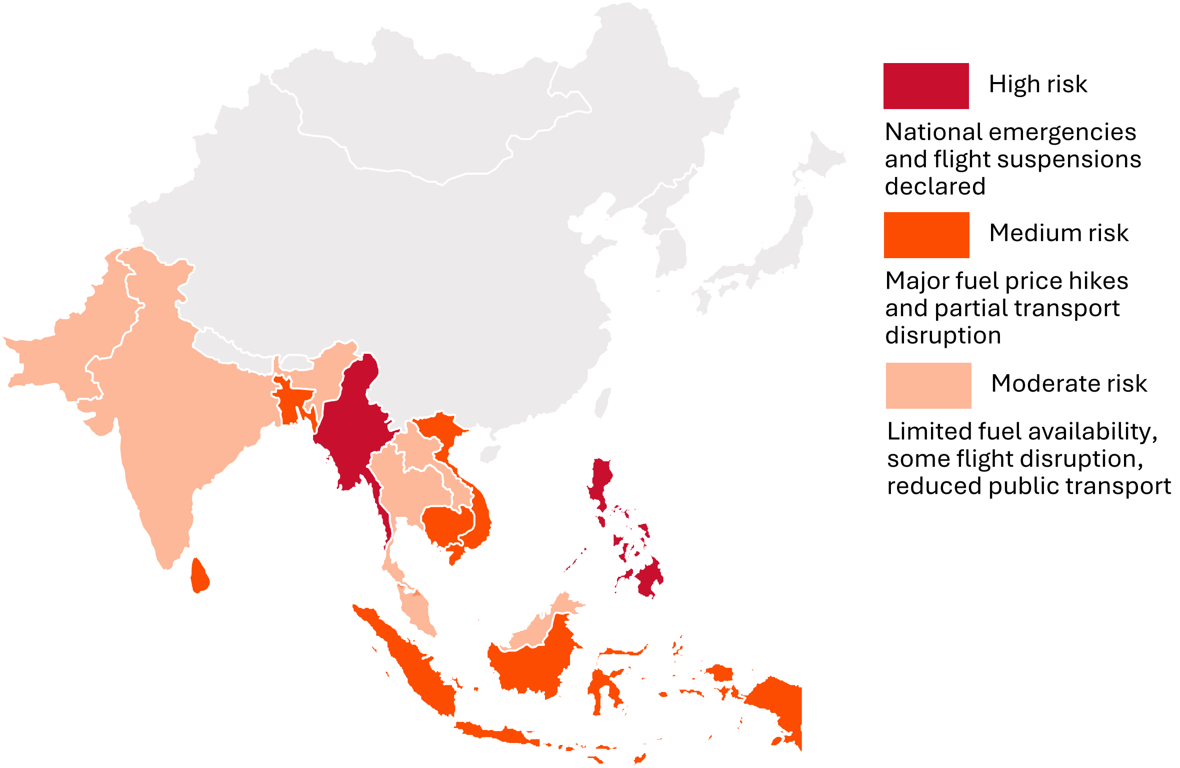
As well as surging oil prices, the Iran conflict and the subsequent closure of the Strait of Hormuz have placed significant strain on global fuel supply chains. This will ultimately impact travel, and not just aviation, but also ferry services and both public and private transportation networks, presenting a new critical operational challenge for travel managers. Some markets are more exposed than others to the prospect of fuel shortages.

Asia is particularly exposed given its heavy dependence on supplies from the Gulf. China can source more oil from Russia, but this is unlikely to cover the shortfall, even if it dips into its own reserves. The situation in the Gulf has complicated India's efforts to diversify away from Russian supply. It may now have to take more oil from Russia, as well as from Iran. Once again, however, this won't fully offset losses.

China, India, Singapore and South Korea are the key exporters of jet fuel to Southeast Asia. The disruption to fuel supplies has intensified, as China and Thailand have banned the export of jet fuel, while South Korea has capped fuel exports. Based on projections for jet fuel supply and demand in 2026, Indonesia, the Philippines and Vietnam are highly exposed, with demand far exceeding supply. The situation is particularly acute in the Philippines and Vietnam, given these countries' reliance on imports for around 70% of their jet fuel needs.

Asia's airlines are deploying different tactics in response to the fuel situation. Some are carrying (tankering) extra fuel on outbound flights or adding refueling stops on longer services to avoid shortages at destination airports. Malaysian low-cost carrier AirAsiaX is taking on extra fuel in Malaysia before flying to Vietnam, where fuel supplies are now restricted. With fuel supplies uncertain from mid-April, Vietnam Airlines has already cut some domestic flights.

Asia Pacific destinations at risk of disruption [2]



(2) Riskline, Iran War Disruptions, April 1, 2026

Fuel supply issues

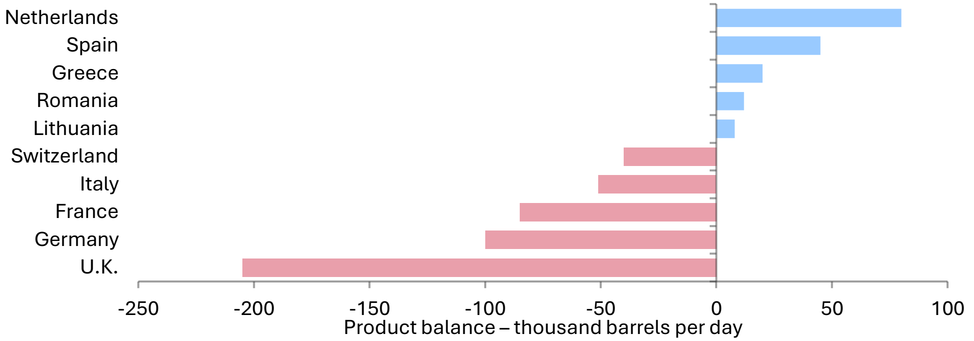
Europe's biggest air travel markets exposed

Europe is also exposed as it relies heavily on the Middle East for its fuel imports. Domestic refineries in key markets simply cannot produce enough jet fuel. Much local refining capacity has been lost since the start of the pandemic, and this shortfall is now being compounded by damage sustained by export facilities in the Gulf. Furthermore, the list of alternative supplies has been reduced with the ban on imports of Russian oil.

Collectively, the five worst-impacted European markets have a jet fuel production shortfall of 500,000 barrels per day. The U.K. is the most exposed with just a single month's reserves. Germany and France are believed to possess just under 60 days' supply. It's likely that Europe will start to feel the supply pinch some time in May.

Not all European countries are at risk. The Netherlands leads the top five markets with the highest production surpluses, with Spain and Greece also in more secure positions. But Airports International Council Europe (ACI) has recently warned the European Commission that Europe could face a systemic jet fuel shortage within three weeks (by early May) if the Strait of Hormuz remains closed.[4]

Status of jet fuel supplies [3]



Impact on travelers

With fuel shortages a real prospect in both Asia Pacific and Europe, travel will inevitably be impacted. The effects will not be felt solely by aviation, with ferry services and both public and private transportation exposed. This presents a new critical operational challenge for travel managers and travelers. They need to think ahead and prepare for disruption.

According to global travel risk intelligence company Riskline, travelers are now at increased risk of experiencing the following:[5]

- Sudden itinerary changes or cancellations
- Reduced mobility within destinations
- Potential delays or the need to make extended stays

It provides some useful advice for coping with potential disruption.

Advice from Riskline

- Check itineraries in advance with airlines or travel providers for updates on cancellations, re-bookings or refunds. Monitor flight and transport updates regularly.
- Build flexibility into travel plans, including the potential for extended stays in affected destinations, due to possible flight or transport disruption.
- Keep informed on local conditions, especially relating to fuel availability and transport.
- Do not assume transport and fuel will always be available.
- If driving a rental vehicle, maintain a full tank of fuel where possible.
- Exercise caution at fuel stations and in crowded areas, where tensions may be high.
- Use public transport, walk or cycle for shorter journeys.

Riskline

(3) Bloomberg webinar, April 9, 2026; (4) BTN Europe, April 10, 2026; (5) Riskline, Iran War Disruptions, April 1, 2026

Airline fuel costs

Airlines have been forced to look at their broader costs

Jet fuel typically represents between 20% and 30% of an airline's operating costs. But for some low-cost or no-frills airlines, such as Ryanair, it can be higher than 40%. Depending on what's happening to other operating costs and the state of their balance sheets, some airlines will be more vulnerable than others to the impact of oil price spikes.

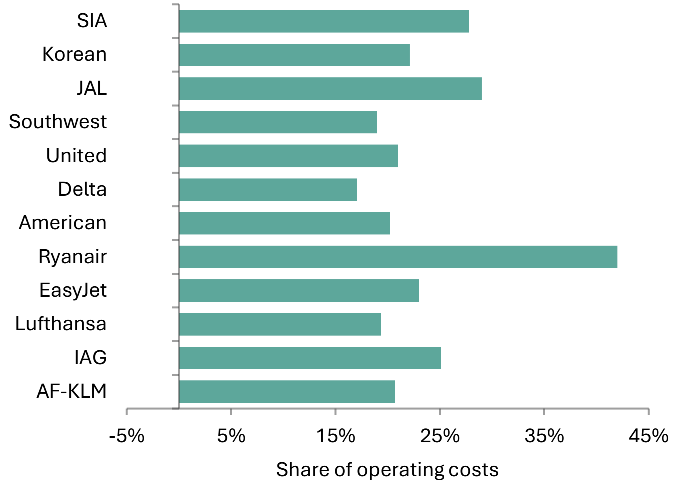
As most U.S. carriers stopped hedging their fuel needs in recent years, they are more exposed to increased costs. To return their businesses to profitability, they are expected to move quickly to pass on at least some of the increased costs to consumers through higher air fares.[7] As European carriers have typically hedged 70-80% of their fuel needs for 2026, they have less of a pressing need to raise fares, and so there may be a lag before prices need to start rising. Of course, some airlines are more exposed than others. Norwegian has hedged roughly 45% of its estimated fuel consumption for 2026. SAS is even more exposed.[8] The Scandinavian airline entered 2026 with none of its fuel needs hedged. It has already implemented a temporary price adjustment, passing on added costs to passengers, and has cancelled multiple flights in April.

The Gulf carriers – Emirates, Etihad Airways and Qatar Airways – are regarded to be in a strong position, with sizeable cash reserves enabling them to absorb rising costs in the short-term. But their heavy dependence on long-haul and transit traffic leaves them more exposed to higher fuel costs. What's more, they may face a slump in demand, should a shift in transit passengers to alternative hubs become entrenched. Before the conflict, around 20% of airline passengers travelling between Asia and Europe transited through a Middle Eastern hub.

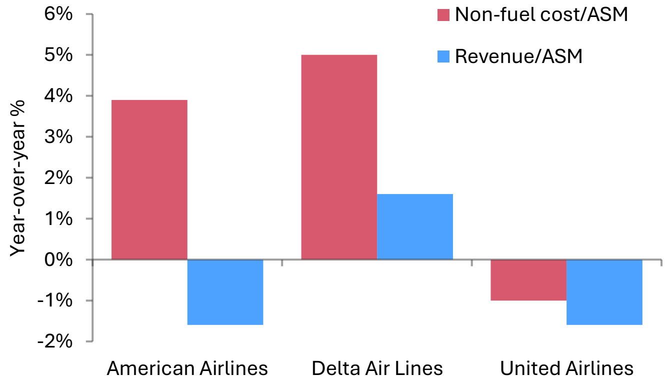
Sharply higher fuel prices are not the only cost issue, particularly for U.S. airlines. Many were already facing other cost pressures, even before high fuel added to them. Based on their results for the fourth quarter of 2025, both American Airlines and Delta Air Lines posted increases in their non-fuel unit costs (per available seat mile – ASM) that outpaced the performance in their unit revenues. And while United Airlines recorded a 1.0% dip in its non-fuel unit costs, its unit revenue fell at a slightly quicker pace of 1.6%.

This imbalance is forcing airlines to look at their broader costs. Delta is already talking about parking older aircraft, and other airlines will likely do the same.[7] Newer aircraft offer better fuel efficiency and airlines are still awaiting multiple new arrivals, whose delivery has been delayed by post-pandemic supply chain issues. Parking older aircraft more quickly than new aircraft arrive will inevitably have a net negative impact on capacity, but this could help restore airline pricing power once the crisis is behind us.

Airline fuel costs [6]



Airline non-fuel costs in Q4 2025 [6]



(6) BCD analysis; (7) Bloomberg webinar, April 9, 2026; (8) Tourism Economics, April 10, 2026

Airfares and demand

Concerns over demand may limit fare increases

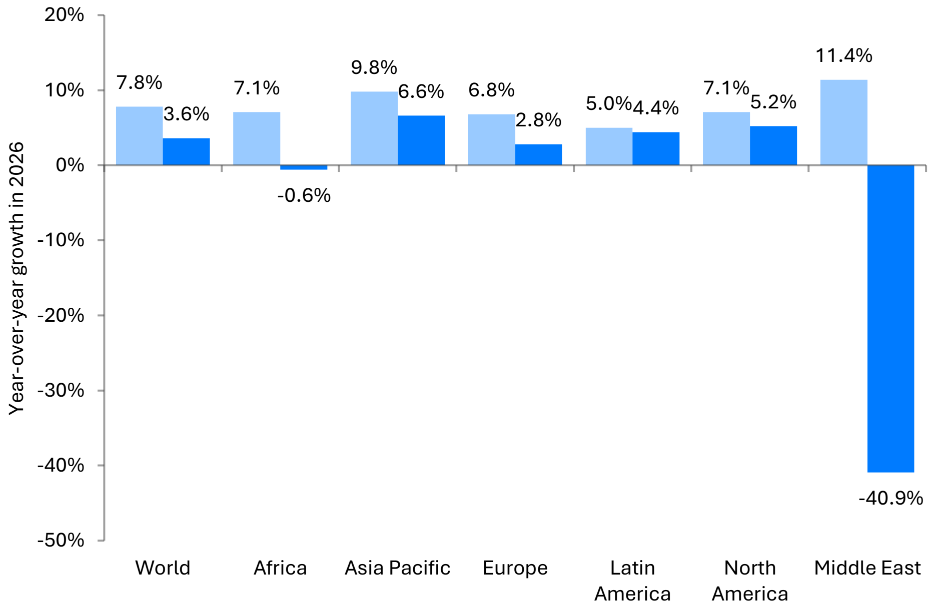
Some airlines have already increased air fares or added/increased fuel surcharges to offset some of the impact of sharply higher fuel costs. But, with the wider economic consequences of the Iran conflict likely to weigh on demand for air travel, airlines will be aware of consumer price sensitivity, and this should prevent them from pursuing a steep hike in air fares.

Under its current assumption of a two-month conflict, Tourism Economics believes that this would translate into a 5-10% increase in base air fares. Such a rise is likely to deter only some of the most price-sensitive travelers, although these are the very passengers that airlines rely on to fill their aircraft. But it would not be enough to derail an otherwise positive growth outlook for air passenger demand in 2026 in all regions aside from the Middle East and Africa.

With forecasted growth of more than 11%, the Middle East was expected to have been the strongest performing region in 2026. The combination of reduced flight activity amid safety concerns and airspace closures now means that air passenger demand is instead expected to contract by more than 40%. While most flights should be free to resume in the second half of 2026, lingering concerns among travelers may delay the full restoration of airline capacity and a willingness to travel to and through the region.

Most other regions face a modest downgrade to their outlook for 2026, largely due to a loss of demand to/from and through the Middle East. A less favorable macroeconomic situation will also dampen air travel demand more generally. Naturally, if the conflict continues for more than the two months currently assumed by Tourism Economics, this would increase further the downside risk to demand.

Changing outlook for demand growth [9]



(9) Tourism Economics, April 10, 2026

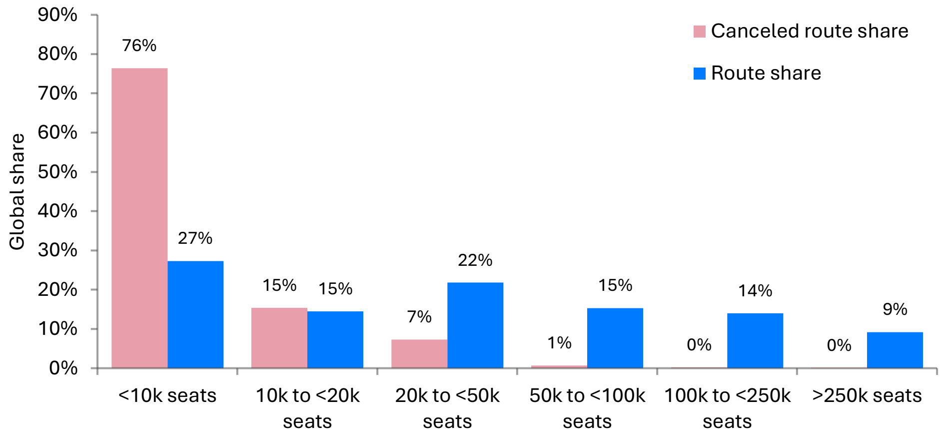
Other airline options

Less capacity and increased fees

As well as higher fares and fuel surcharges, airlines are finding other ways to respond to higher jet fuel prices and the prospect of supply shortages. One approach is to reduce cost by adjusting capacity. In the U.S, Delta Air Lines has now removed the 2.1% capacity (available seat mile) growth it had planned for the second quarter (Q2) of 2026. Other U.S. airlines may follow suit. United Airlines had been planning to grow by 3.5% in Q2 and American Airlines by 5.5%, with 9.5% expansion earmarked for the third quarter.

As airlines scale back their operations, which routes will be most vulnerable to cuts? Analysis by IATA (International Air Transport Association) provides some clues.[10] Of the 6,500 routes that were discontinued in 2025 around the world, the lowest volume routes were most impacted. While routes on which airlines offered fewer than 20,000 annual seats accounted for 42% of the global network, they were hit with 92% of total cancellations. Not only are these low-volume routes vulnerable in the current environment, so too are the passengers who rely on them. Lacking the economies of scale, airlines find it hard to sustain such routes profitably. And the picture is the same around the world, with low volume routes impacted similarly in all regions. North America is most exposed: 97% of discontinued routes were low volume, and these seem most vulnerable in 2026.

Changing global network by annual seat volume in 2025 [10]



Airlines are looking to offset some of the extra fuel costs through increased revenue beyond fares and fuel surcharges. Since the end of March, most major U.S. airlines have significantly increased the fees they charge for checked bags.[11] In most case, however, certain passenger groups are exempt from the extra charges. JetBlue still offers a $10 discount for bags checked more than 24 hours before departure, but Alaska Air Group has withdrawn this benefit ($5). Frequent flyer program members in higher tiers have retained free first and second checked bags at JetBlue. American Airlines is maintaining eligible complimentary bags per status level for AAdvantage members. Not all traveler groups are subject to the increased costs.

Alaska Airlines	American Airlines	Delta Air Lines	JetBlue Airways	Southwest Airlines	United Airlines
Fees for first and second checked bag increased by $5 to $45 and $55, respectively, with third bag fees increased by $50 to $200.	Fees for first and second checked bags increased by $10 to $50 and $60. Third checked bag fee increased by $50 to $200. Fees for first and second checked bags for Domestic Basic Economy to rise by a further $5 from May 18.	First and second checked bags fees increased by $10 to $45 and $55. Third checked bag fee now $200, up from $150. Only applies to domestic and select short-haul international routes.	First bag fee increased by $4 to $49 off-peak and by $9 to $59 peak. Second checked bag fees raised by $9 to $69 off-peak and $79 peak.	Fees for first and second checked bag increased by $10 to $45 and $55. Third checked bag fee remains unchanged at $150.	First and second checked bags fees increased by $10 to $50 and $60 on flights in the U.S. and to Mexico, Canada and Latin America. Third checked bag fee lifted by $50 to $200. A $5 discount is offered for online prepayment.

(10) IATA, April 10, 2026; (11) BTN, April 10, 2026

Share your thoughts

Do you have any questions or comments regarding this report? Please email Mike Eggleton to share your thoughts.

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