European Airlines

War in Middle East: sector braces for cost shock from fuel prices, route disruption, logistics expenses

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The length and spread of the Middle East conflict will shape credit outcomes for European airlines in three ways: fuel prices, routes and non-fuel cost inflation. If disruption is short lived, hedges, pricing and capacity discipline will be good buffers. However, a protracted conflict would push up jet fuel prices, force longer routes on airlines serving South Asian and East Asian markets and aggravate disruption -related costs, putting the greatest pressure on network carriers with more rest-of-world exposure and less flexibility.

In relative terms, carriers with transatlantic-tilted networks and strong liquidity, such as IAG, appear better positioned than peers with higher Asia/Middle East exposure, notably Lufthansa Group and Air France-KLM. However, transatlantic traffic and fares are also vulnerable to geopolitics, volatile US trade policy and any resultant slow-down in economic growth.

As for Europe's budget carriers, largely serving the intra-European market such as easyJet, Ryanair and Wizz-air, the impact of the war will likely be less dramatic, felt through higher fuel prices, potential travel disruptions in the eastern Mediterranean and any adverse longer-term impact on consumer confidence and appetite for travel within Europe.

The European sector did start the year with improved balance sheets and more normalised capacity than during the post-pandemic rebound, yet the operating landscape was still difficult even before the US and Israel attacked Iran at the weekend, igniting a new war in the Middle East.

Inflation, disruption related expenses and the costs of environmental compliance had continued to rise, with nonfuel unit costs advancing by 2%–4% in recent quarters, compressing operating margins. The sector's credit quality is therefore still exposed to exogenous shocks affecting fuel, airspace access and long-haul operations. The Iran conflict amplifies pressures by forcing additional rerouting on top of the existing closure of Russian airspace, lengthening flying times and intensifying crew, maintenance and fuel requirements. These dynamics interact with persistent supply chain challenges that constrain network flexibility. Consequently, rating trajectories remain broadly stable to negative, reflecting the sector's heightened vulnerability to external shocks.

Monitoring hedging by quarter, trends in nonfuel unit costs and schedule reliability will be central to near-term credit assessment.

Table 1: Key trends impacting credit quality

⊕	Strong passenger demand and high load factors
⊕	Improving financial performance and profitability in recent years
⊕	Cargo revenues acting as a volatility buffer or amplifier, depending on network exposure, freight-hub accessibility, and geopolitical disruptions
⊖	Thin industry-wide margins
⊖	Rising non-fuel operating costs
⊖	Geopolitical airspace disruptions and high sensitivity to small shocks in demand, costs or fuel
⊖	Exposure to fuel price volatility for partially or unhedged carriers
⊖	Limited upward rating momentum due to the sector's ongoing vulnerability to exogenous shocks and structurally thin financial buffers

1. Energy channel: fuel costs and hedging

Jump in price of kerosene is main war-related cost for airlines

Higher energy prices will be the conflict's most immediate and direct financial impact on the sector. With the Strait of Hormuz is effectively closed – the narrow waterway between Iran and the Gulf states normally carries about 20% of the world's oil and gas supply – global oil markets have reacted sharply. As oil goes up, the price of jet fuel rises too, and fuel is one of the biggest costs for airlines. For European carriers, fuel usually makes up 20–30% of total unit costs, and roughly a quarter of operating expenses, so any long period of elevated fuel prices squeezes profit margins and, ultimately, weighs down on credit strength.

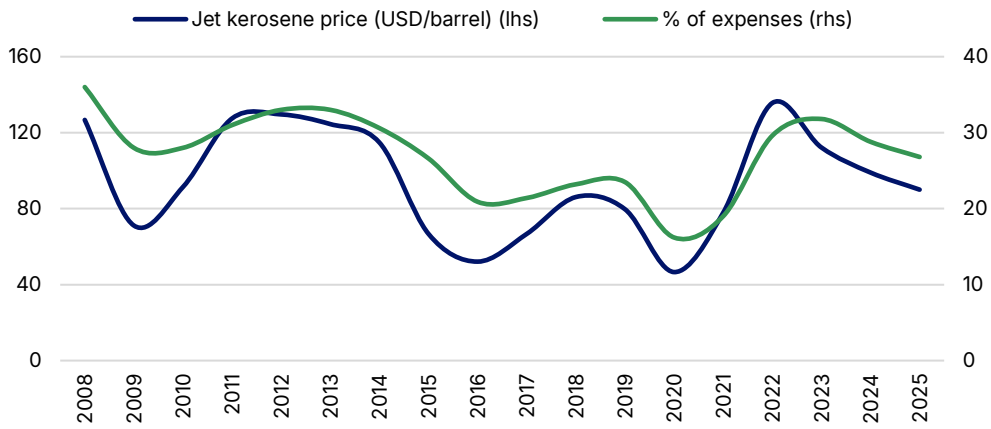
Fuel hedging provides a cushion, but only up to a point

Prior to outbreak of the war, fuel prices were headed lower, creating breathing room for airlines which has suddenly disappeared. Hedging provides temporary protection, yet it can only delay, not prevent, the passthrough of higher prices once contracts roll off. Once hedges expire, airlines buy fuel at new, higher prices.

Hedging costs are another issue when markets become volatile because protection is more expensive. Finally, there is the possibility that hedging backfires if prices eventually fall faster than expected or demand weakens, leaving airlines locked into paying more than the market price.

Earlier in the year, the Brent forward curve pointed to modest declines, about 1% into the second quarter, but the move from roughly USD 60 a barrel at the start of the year to above USD 80 now, combined with the geopolitical shock from the Hormuz disruption, has rendered earlier price signals unreliable. With fuel markets now driven more by geopolitical risk than by fundamentals, airlines face greater uncertainty in forecasting their fuel costs, which further complicates planning and increases the risk of renewed pressure on credit metrics.

Figure 1: Jet fuel prices, fuel bill as share of global airline costs 2008-25



Source: IATA, Scope

2. Route exposure, airspace disruptions and traffic mix

Closure of Middle East air space presents logistics, cost challenge

Route mix is a key credit differentiator across the European airline sector. The Middle East and Africa are some of Europe's largest international markets by seats after intra-Europe travel, while conflict-driven restrictions south of Iran represent significant interference on routes to South Asia. European carriers have a smaller share of the long-haul market connecting the rest of Asia given the long-established competition between Gulf- and Asia-based rivals and airspace restrictions.

Among the European airline operators, IAG looks relatively well positioned in the context of the Iran conflict as its long-haul network includes relies on Asia/Middle East for 17% of its flights, reflecting its focus on the North Atlantic market. This bias, however, also creates sensitivity to shifts in transatlantic demand due to shifting US trade policy and economic growth in the US and Europe.

US routes generate around half of long-haul profits for not just for IAG but Lufthansa Group and Air France–KLM, but these two carriers face a different balance of risk because of larger exposure

to Asia and markets in the rest of the world. Longer routes, higher operating costs and stronger competition from Gulf carriers weigh down more heavily on their margins as a result, leaving them more exposed to war-related disruptions.

Turkish Airlines to benefit from disruption to Gulf hubs

Turkish Airlines, in contrast, operates a distinct network model. Its 44% rest-of-world available-seat-kilometer share places it at a geographic crossroads between Europe, Asia and Africa. The airline serves more countries than any other airline, according to industry data provider OAG, giving it wide global reach, and allowing it to absorb cargo and passenger spillovers when Gulf hubs such as Doha or Dubai face disruption as they have in the past week.

Even so, Turkish Airlines will face the same headwinds as its European peers, namely higher fuel costs and rerouting challenges driven by closures to Middle East airspace, therefore limiting credit differentiation.

Table 2: European network carriers[1] route exposures by available seat kilometres (ASK)

Carrier / Group	Intra-Europe	US	Other Americas	Rest of World
IAG	34%	29%	21%	16%
– British Airways	24%	35%	13%	30%
– Iberia	26%	20%	52%	2%
– Aer Lingus	36%	**60%**	4%	0%
Air France-KLM	25%	17%	24%	35%
– Air France	13%	22%	28%	**37%**
– KLM	23%	18%	28%	32%
Lufthansa Group	36%	26%	9%	30%
– Lufthansa	27%	30%	12%	31%
– Swiss	26%	34%	7%	33%
– Austrian	48%	22%	2%	28%
– Brussels	47%	7%	0%	**46%**
– Discover	27%	31%	19%	24%
Turkish Airlines	33%	17%	6%	**44%**
TAP Air Portugal	36%	16%	37%	9%
SAS	68%	25%	1%	6%
ITA Airways	27%	28%	25%	20%
Virgin Atlantic	0%	**63%**	8%	29%
Finnair	48%	12%	0%	**40%**

Source: Cirium, Scope

3. Cargo as a credit buffer or swing factor

Cargo remains differentiator, buffer for European airlines

Cargo remains an important earnings contributor for European network airlines, particularly when long-haul passenger revenues come under pressure. During the Covid pandemic, cargo provided a crucial buffer for full-service carriers as passenger demand collapsed, helping stabilise revenue at a time when capacity was scarce and yields spiked. That dynamic highlighted the value of having diversified revenue sources and a significant freight presence within the network.

Today, global freight continues to be dominated by specialist logistics firms such as FedEx and UPS and by Middle Eastern carriers including Qatar Airways and Emirates, which rank among the

[1] Budget airlines such as Ryanair, easyjet and Wizz Air are omitted as they mainly operate intra-Europe routes

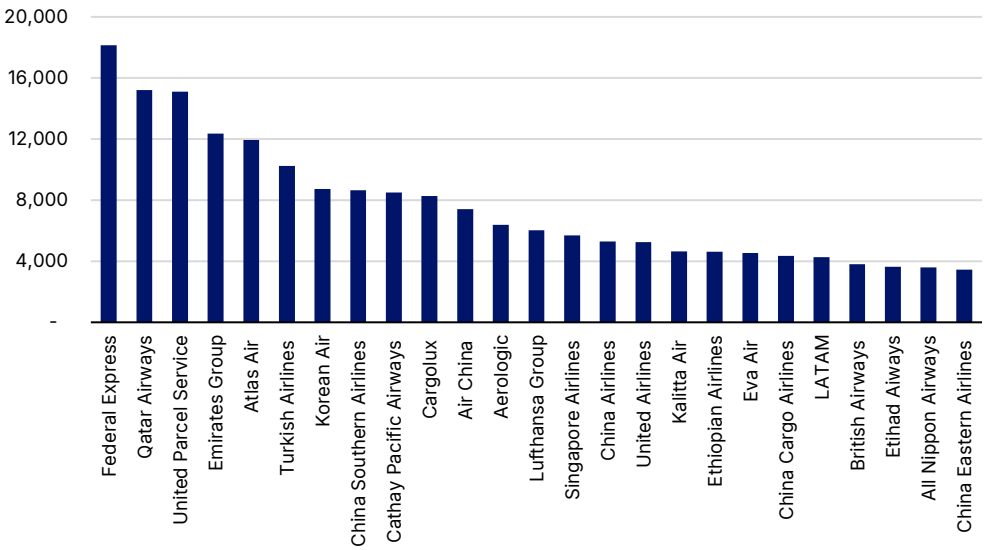
world's largest cargo operators. Lufthansa Group also appears within the top 25 globally, reflecting its sizable capacity and dedicated fleet of cargo aircraft.

In periods of geopolitical stress, such as the current Middle East conflict, cargo can act either as a stabilizer or as a potential source of volatility. Disruptions at hubs like Doha or Dubai could temporarily redirect flows toward alternatives, as we discussed in the case of proximity of Turkish Airlines' Istanbul hub to the Gulf. However, air-cargo operators are no less exposed to rising jet fuel prices, airspace restrictions and operational uncertainty, which can erode the fatter margins normally provided by cargo volumes.

For European carriers with the most cargo exposure, including Lufthansa Cargo and IAG's British Airways brand, the current environment can cut both ways. Cargo still acts as a partial buffer when passenger revenues soften or rerouting disrupts long-haul flows. At the same time, the broader instability in Middle Eastern airspace, longer flying times and higher fuel prices risk offsetting some of that benefit. Cargo performance remains a variable credit swing factor, capable of supporting financial resilience but vulnerable to the same external pressures on passenger operations.

Figure 2: Freight flyers: global demand for top 25 carriers, in cargo tonne-km (CTK)

US logistics companies, Gulf carriers lead air-cargo sector



Source: IATA, Scope

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