
C O M M E N T A R Y

When Airspace Closes

Navigating the competition economics of a crisis

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The US–Israel military operations against Iran have disrupted global aviation almost overnight. Beyond the immediate operational pressures, a set of competition economics dynamics is quietly taking shape with consequences for airlines, airports, regulators, and consumers alike. Understanding them is the first step to navigating them well.

The global picture: What crisis conditions do to aviation markets

On 28 February 2026, Operation Epic Fury changed the geometry of global aviation almost overnight. Eight states closed their airspace simultaneously.¹ Emirates and Qatar Airways, two of the world's largest international carriers, suspended all operations.² The European Union Aviation Safety Agency (EASA) issued a Conflict Zone Information Bulletin advising airlines to avoid the airspace of eleven states in the region.³ The Middle East, which sits at the intersection of every major Europe–Asia flight corridor, became a no-fly zone. The operational disruption is significant, with material consequences for passengers and crews across affected routes. For the aviation industry, the immediate challenge is operational. But layered beneath it, a set of competition economics dynamics is already taking shape that will define market outcomes long after the airspace reopens. The decisions made in the next two to three weeks, across all of these actors, will shape the competitive market structure in ways that outlast the conflict itself. Getting the economics right from the outset is considerably less costly than correcting it afterwards.

¹ Iran, Israel, Iraq, Jordan, Qatar, Bahrain, Kuwait and the UAE. Al Jazeera (2026), "Airspace closed, airlines halt flights as US, Israel attack, Iran responds", 28 February 2026. <https://www.aljazeera.com/news/2026/2/28/airspace-closed-airlines-halt-flights-as-us-israel-attack-iran-responds>

² The National (2026), "Dubai suspends all flights as Gulf states close airspace after Iran strikes", 28 February 2026. <https://www.thenationalnews.com/business/aviation/2026/02/28/airlines-suspend-flights-amid-us-israel-strikes-on-iran-and-gulf-airspace-closures/>

³ EASA (2026), Airspace of the Middle East and Persian Gulf, 28 February 2026. <https://www.easa.europa.eu/en/domains/air-operations/czibs/2026-03>

Dynamic #1: The parallel response problem

When a common shock hits all firms simultaneously, fuel costs spike, airspace closes, certain routes become unviable, rational firms respond in similar directions at similar times. Fares rise. Surcharges are introduced. Capacity is withdrawn from affected routes. This is entirely normal commercial behaviour under shared cost pressure, and it should be understood as such.

The economic complexity arises because independent parallel responses and coordinated ones produce the same observable market outcome. Prices rise in parallel either way. Surcharges appear at similar levels either way. This creates genuine analytical difficulty for regulators trying to assess conduct and for firms trying to demonstrate the independence of their decisions. The practical implication is straightforward: airlines that can show their pricing and surcharge decisions were anchored to their own specific cost position, that is, their hedging profile, their route-level exposure, their load factor assumptions, are in a considerably stronger position than those whose decisions were shaped by industry-wide discussions or competitor observation. Good process, documented in real time, is the most effective protection. As the United States Department of Justice (US DOJ) and Federal Trade Commission (US FTC) made clear in a joint guidance during the COVID-19 pandemic, crisis conditions are not a defence to antitrust liability.⁴

Dynamic #2: Scarcity, rents, and infrastructure access

When major hub airports are compromised, the value of alternative infrastructure rises sharply. Slots, gates, and ground-handling capacity at unaffected airports become scarce, and scarcity creates value. This is not inherently problematic as it is how markets signal where resources should flow.

The economic challenge is that airport infrastructure is an essential facility: airlines cannot easily substitute one airport for another in their home market. Where a dominant carrier is also affiliated with ground-handling providers at the same airport, the sudden rise in infrastructure value creates complex incentive structures that are worth understanding clearly, both for the infrastructure operator seeking to manage them responsibly and for carriers seeking equitable access. Transparent, criteria-based allocation frameworks, established proactively rather than reactively, serve everyone's interests, including the infrastructure operator's long-term commercial reputation.

⁴ US DOJ and US FTC (2020), Joint Antitrust Statement Regarding COVID-19, March 24, 2020. <https://www.justice.gov/atr/joint-antitrust-statement-regarding-covid-19>

Dynamic #3: Consolidation pressures and market structure

Aviation crises accelerate consolidation. Carriers under financial stress become acquisition targets. Shareholders reach for structural solutions. This is a legitimate and often necessary response to market stress. Indeed, consolidation in aviation has historically produced both efficiency gains and, in some cases, lasting reductions in competitive intensity.

The economic discipline required in this environment is to distinguish between consolidation that creates genuine and durable value, which is via network integration, cost efficiencies, and improved consumer connectivity; and consolidation that is primarily a mechanism for reducing competitive pressure on surviving carriers. The former deserves support. The latter deserves scrutiny, from investors and regulators alike. The analytical question, as always, is what the market looks like after the transaction and whether consumers are better or worse served.

Two recent crises, real competition consequences

The dynamics described above are not theoretical. Two crises within the past five years generated documented, consequential competition outcomes in aviation, outcomes that were still being litigated, remedied, and in some cases violated years after the original disruption had passed. They are worth examining in some detail, because they are the closest precedent for what is unfolding now.

The COVID-19 pandemic: consolidation, state aid, and the long tail of regulatory scrutiny

The pandemic was the most severe demand shock in aviation history. Governments responded with unprecedented financial support, with around USD173 billion provided globally to financially support the industry.⁵ Competition authorities found themselves navigating a genuine tension between keeping airlines alive and maintaining competitive market structure. Indeed, the competition consequences were substantial and long-lasting across three areas.

State aid and the level playing field

In Europe, governments moved quickly to support national carriers. Germany provided a EUR9 billion package to Lufthansa; France and the Netherlands jointly provided EUR10.4 billion to Air France-KLM.⁶ The European Commission (EC) accepted that government recapitalisations were

⁵ Shi Y, Li X (2021), Determinants of financial distress in the European air transport industry: The moderating effect of being a flag-carrier. PLoS One. 2021 November 15;16(11):e0259149. doi: 10.1371/journal.pone.0259149. PMID: 34780487; PMCID: PMC8592452.

⁶ InhouseLegal (2024), "European Commission's in-depth investigations into state aid for European airlines", 12 July 2024. <https://inhouse-legal.eu/antitrust-competition-law/european-commissions-in-depth-investigations-into-state-aid-for-european-airlines/>

required to provide urgently needed liquidity, but made clear it was determined to ensure that such aid did not unduly distort competition. For Lufthansa, approval came with conditions: the airline was required to divest 24 landing slots at Frankfurt and Munich airports to allow new entrants.⁷ Even so, the European Union (EU) General Court annulled both the Lufthansa and Air France-KLM decisions in 2023, finding insufficient exit incentives and inadequate assessment of competitive effects.⁸

The governance principles that should govern crisis support, that include assistance to be non-discriminatory, well-targeted, proportionate with a sunset clause, transparent, and structured to minimise competitive distortions, were articulated by the Malaysian Aviation Commission (MAVCOM) in 2020.⁹ The European experience validated that framework: where those principles were not rigorously applied, approvals unravelled. The lesson is that "approved now" does not mean "settled forever".

Crisis consolidation under pressure

The Korean Air–Asiana merger was announced in November 2020 at the height of the COVID-19 pandemic.¹⁰ Asiana was financially distressed; the Korean government and Korea Development Bank backed Korean Air's acquisition as the best mechanism to preserve the carrier. The competition implications were material. The two carriers together would command around 49.5% of South Korea's international seat capacity and, combined, rank among the top 12 airlines globally by international capacity.¹¹ The merger required approval from 14 regulatory jurisdictions and took four years to close.¹² The EC required Korean Air to divest Asiana's entire worldwide cargo business and transfer routes and slots on four Europe–Korea corridors to T'way Air as a condition of clearance.¹³ The UK required slot transfers to Virgin Atlantic on the London–Seoul route.¹⁴

⁷ First decision not to raise objections in 2020, Last decision date 8 July 2024, Para.77 in EC (2024), SA.57153: COVID-19 - Aid to Lufthansa, https://ec.europa.eu/competition/state_aid/cases1/202440/SA_57153_644.pdf

⁸ EUR-Lex (2023), Joined Cases T-34/21 and T-87/21 (Lufthansa), 10 May 2023. <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex:62021TJ0034>

⁹ MAVCOM was dissolved in 2025. All of its economic and competition regulation functions are now with the Civil Aviation Authority of Malaysia (CAAM). MAVCOM's research reports and publications are now on CAAM website. MAVCOM (2020), Commentary on Government Assistance to the Aviation Industry Amidst the COVID-19 Pandemic, March 2020. <https://www.caam.gov.my/wp-content/uploads/2025/07/200327-MAVCOM-Commentary-Government-Assistance-To-Aviation-Industry-Final.pdf>

¹⁰ Casey, D. (2020), Korean Air and Asiana merger to offer 'wider range of routes', 16 November 2020, Aviation Week, <https://aviationweek.com/air-transport/airports-networks/korean-air-asiana-merger-offer-wider-range-routes>

¹¹ See note 10.

¹² Asian Aviation (2024), Korean Air completes acquisition of Asiana, 12 December 2024. <https://asianaviation.com/korean-air-completes-acquisition-of-asiana/>

¹³ EC (2024), M.10149: Korean Air Lines/Asiana Airlines, <https://competition-cases.ec.europa.eu/cases/M.10149>

¹⁴ UK Competition and Markets Authority (2025), Korean Air / Asiana Airlines merger inquiry, last updated 3 June 2025. <https://www.gov.uk/cma-cases/korean-air-slash-asiana-airlines-merger-inquiry#full-publication-update-history>

In the first quarter of 2025, after the merger was finally closed, Asiana raised ticket prices above the approved cap on four routes, with business class fares on the Seoul–Barcelona route rising 28.2% above the permitted limit. Both airlines were fined approximately USD8.7 million.¹⁵ The regulatory conditions attached to crisis-era mergers do not expire with the crisis. They follow the combined entity for a decade or more.

Authorised coordination as a tool

Not all competition responses to the COVID-19 pandemic were restrictive. The Australian Competition and Consumer Commission (ACCC) granted interim authorisation for certain airlines to coordinate flight schedules and share revenue on ten regional routes, with the condition that such airlines would not charge fares higher than those in place on 1 February 2020.¹⁶ This represented a calibrated use of competition law flexibility: permit coordination that would normally be prohibited, but with explicit price protections for consumers.

The Russia–Ukraine war: competitive asymmetry from airspace closure

The competition dynamics of the 2022 war were different in character from COVID-19 as it is less about financial stress and consolidation, and more about asymmetric access to airspace. This created sudden, dramatic shifts in competitive position across carriers and routes.

Russia closed its airspace to carriers from approximately 36 countries, and those countries reciprocally closed their airspace to Russian carriers, thus, changing the competitive landscape for Europe–Asia aviation.¹⁷ The airspace restriction to specific airlines caused asymmetry of civil aviation competition.¹⁸

The consequences varied sharply by carrier. Turkish Airlines, Emirates and Qatar Airways emerged as structural winners as their hub positioning or retained Russian airspace access gave them competitive advantages that were not the product of competitive merit.¹⁹ Finnair was the most dramatic loser: its entire Europe–Asia via Helsinki strategy became commercially unviable overnight, forcing the airline to wet-lease its own aircraft to British Airways and Lufthansa to absorb surplus capacity.²⁰ Meanwhile, Chinese carriers retained Russian airspace access and

¹⁵ ICLG (2025), Asiana Airlines hit with record-setting fine in Korea, 5 August 2025. <https://iclg.com/news/22918-asiana-airlines-hit-with-record-setting-fine-in-korea>

¹⁶ ACCC (2020), ACCC authorises Regional Express to coordinate with other airlines, 26 March 2020. <https://www.accc.gov.au/media-release/accc-authorises-regional-express-to-coordinate-with-other-airlines>

¹⁷ IATA (2022), The impact of the war in Ukraine on the aviation industry, March 2022. <https://www.iata.org/en/iata-repository/publications/economic-reports/the-impact-of-the-conflict-between-russia-and-ukraine-on-aviation/>

¹⁸ Xue D, Du S, Xu Y, Zhang Q, and Sun X (2025), Airspace closure challenges: Exploring the impact of the Russia-Ukraine conflict on flight operations and pathways to solutions, Transportation Research Interdisciplinary Perspectives, Volume 31, 2025, <https://doi.org/10.1016/j.trp.2025.101396>.

¹⁹ Fabinger, J (2022), How the Russia Ukraine War Impacted Regional European Aviation In 2022, Simple Flying, 30 December 2022. <https://simpleflying.com/russia-ukraine-war-regional-european-aviation-impact-2022/>

²⁰ See note 19.

gained a persistent cost advantage on Asia–Europe routes that has endured well beyond the initial shock.²¹

The most instructive episode for competition economics was Air Serbia. Serbia's decision not to sanction Russia left Air Serbia as one of very few carriers with Moscow access. Its management immediately boosted capacity and raised prices as flights sold out weeks in advance. While technically lawful, it was politically untenable. Serbia's President personally intervened to require a capacity rollback.²² The lesson: competitive advantages arising from asymmetric regulatory treatment, rather than competitive merit, create legitimacy problems regardless of legality.

A feeder market in a hub world: Malaysia's distinct position

A natural question for aviation markets across the region is whether disruption to Gulf hubs creates an opportunity for Asian hub airports to capture diverted Europe–Asia transit traffic. For Singapore Changi International Airport (SIN) and Hong Kong International Airport (HKG), that question has some analytical basis: both operate as genuine competing long-haul transit hubs. However, it does not apply cleanly to Malaysia.

KUL is primarily a feeder hub, not a competing long-haul transit hub

The Kuala Lumpur International Airport's (KUL) role in the global aviation system is to connect Malaysian origin-and-destination passengers to Gulf carrier services, principally Emirates, Qatar Airways, and Etihad, for onward connections to Europe, the Middle East, and Africa. The disruption to Gulf hub operations therefore does not primarily create a network opportunity for Malaysian carriers. It removes a critical connectivity layer on which they and their passengers depend. As highlighted earlier, the Europe–Asia traffic flows are already concentrated through Middle East air corridors following Russian airspace restrictions.²³ The current crisis compounds that concentration rather than offering an easy alternative.

Malaysian passengers who cannot connect through Dubai or Doha face a materially degraded travel experience, with limited near-term alternatives. Malaysian carriers face both revenue loss on affected routes and increased costs from rerouting the services they can maintain. This is the immediate commercial reality, and it is harder than the hub-substitution narrative suggests.

²¹ See note 19.

²² See note 19.

²³ See note 2.

The asymmetric recovery dynamic

The medium-term picture is where the competition economics become more interesting. Gulf carriers will not resume full operations simultaneously. Emirates, Qatar Airways, and Etihad will recover at different speeds depending on the trajectory of the conflict and their individual operational circumstances. That differential recovery has structural implications for the Malaysian aviation services market.

Whichever carrier resumes full connectivity first will naturally attract a disproportionate share of pent-up Malaysian feeder traffic. What is worth monitoring is whether that temporary operational advantage translates into sustained pricing power on Malaysia–Europe and Malaysia–Middle East routes once all carriers are operational again, and whether the competitive equilibrium restores itself at the speed the market would normally expect, or more slowly.

What good looks like in a fast-moving crisis

Crisis conditions compress decision timelines and elevate the stakes of choices that would, in normal times, receive more careful consideration. The following is our assessment of what good navigation looks like: for industry players managing their own exposure and for regulators discharging their responsibilities to competitive markets and consumers.

For industry players	For regulators
<p>Anchor pricing to your own economics</p> <p>Document pricing and surcharge decisions against your specific cost structure — hedging position, route exposure, load factors — in real time. Independent decisions, clearly recorded, are the most straightforward protection against subsequent questions about parallel conduct.</p>	<p>Establish pre-crisis baselines now</p> <p>Route concentration, pricing levels, and ground-handling market shares are the counterfactual against which any crisis-period conduct will be assessed. That baseline is straightforward to document today and very difficult to reconstruct credibly once the crisis has passed.</p>
<p>Frame government support requests carefully</p> <p>Support sized against a quantified, crisis-specific revenue impact is more defensible and more likely to be granted efficiently than support framed around broader liquidity or capitalisation needs. The economic case for the ask should be built before the approach is made.</p>	<p>Engage infrastructure operators proactively</p> <p>A proactive conversation with airport operators and ground-handlers about allocation criteria during the disruption period is more effective and less resource-intensive than an investigation after the fact.</p>

For industry players	For regulators
<p>Apply the same discipline to infrastructure access</p> <p>For airport operators, transparent and criteria-based allocation of slots and ground-handling capacity during high-demand periods protects long-term commercial reputation and regulatory relationships. These are outcomes that matter well beyond the current disruption.</p>	<p>Monitor feeder route concentration through recovery</p> <p>The asymmetric recovery of Gulf carriers will create temporary concentration on Malaysian feeder routes. The analytical task is distinguishing concentration that is operationally explained from concentration that reflects a durable shift in market power.</p>
<p>Think carefully before pursuing crisis consolidation</p> <p>The Korean Air–Asiana merger took four years, requiring concessions across 14 jurisdictions and divestment of an entire cargo business, and yet, produced post-merger price cap violations that resulted in fines. Mergers premised primarily on financial distress require a clear-eyed view of the post-transaction competitive landscape and of the long tail of regulatory conditions that will follow.</p>	<p>Prepare merger assessment frameworks in advance</p> <p>Consolidation proposals will come, and failing firm arguments will be deployed. Authorities that have worked through their analytical framework in advance and have a credible pre-crisis competitive baseline will assess those proposals considerably more effectively.</p>

The underlying point

Crisis conditions do not suspend the economics of competition. They intensify them. Cost pressures, scarcity dynamics, consolidation incentives, and regulatory attention all increase simultaneously. The decisions made under that pressure, by all parties, are the ones that define market structure for years afterward.

The most useful frame for navigating this period is neither alarm nor complacency, but clarity. Understanding which economic mechanisms are being activated, what they mean for different market participants, and what good conduct looks like in each case, that is, what allows firms to act decisively and confidently, and regulators to discharge their responsibilities without overcorrecting.

The aviation sector has navigated external shocks before: September 11, SARS, the 2008 financial crisis, COVID-19 pandemic. In each case, the markets that emerged most competitive and consumer-serving were those where industry and regulatory responses were well-calibrated to the actual economics of the disruption, rather than to its emotional intensity.

Disclosure: Dr Wan Khatina Nawawi, in a prior capacity as an officer of the Malaysian Aviation Commission (MAVCOM), headed the MAVCOM team that analysed and provided a recommendation to the Commissioners in respect of the Korean Air–Asiana Airlines merger. That analysis was conducted independently in accordance with MAVCOM's statutory mandate. The public record of MAVCOM's determination is available on the Civil Aviation Authority of Malaysia (CAAM) website. All facts cited in this commentary regarding the merger are drawn from publicly available sources, as referenced above.
