SHIFTS IN U.S. JET FUEL PRICES AND COMMERCIAL AIR TRAVEL
May/June, 2026

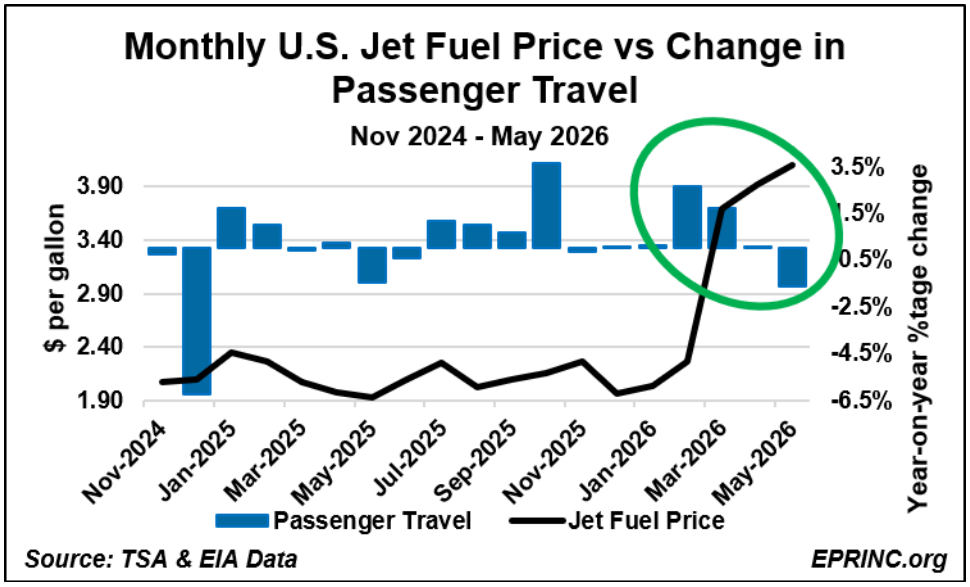

Figure 1

Introduction

The ongoing war between Israel / U.S. and Iran that has led to a blockade of the Hormuz Strait has led to shortages and price spikes in numerous hydrocarbon commodities.

Jet fuel has been no exception to this; since the end of February, prices have risen over 80% to an average of $4.10 per gallon during May. Since the November 2024 election, they had averaged $2.10 with little variability (Figure 1, black line, left-hand side scale).

The Scale of the Shock

The driver of the price increase is the same supply disruption now affecting global crude markets. A substantial share of seaborne crude transit moves through the Strait of Hormuz, and the closure has tightened global product balances. Asian refineries, the marginal supplier of jet fuel to Pacific and trans-Pacific routes, have curtailed runs as feedstock availability has narrowed. The International Energy Agency has separately reported that Europe is operating with roughly six weeks of jet fuel cover at current consumption rates.

For airline operators, jet fuel is the single largest variable cost. IATA places fuel at approximately 25–27% of total airline operating expense in normal periods, a share that rises sharply during commodity shocks. A doubling of jet fuel from $2.10 to a sustained $4.10 per gallon corresponds, at current U.S. jet fuel consumption volumes, to roughly $40 billion in incremental annual industry fuel expense.

The Industry Response

Airlines have responded along two dimensions: pricing pass-through and capacity discipline. On pricing, U.S. and international carriers have implemented surcharges or fare adjustments roughly proportional to the magnitude of the cost shock. ANA and Japan Airlines have nearly doubled long-haul fuel surcharges, charging up to approximately $370 per segment on routes to

North America and Europe. Air France-KLM has raised long-haul roundtrip economy fares by approximately €50; Air India, Hong Kong Airlines, and Virgin Atlantic have all implemented or raised fuel-related surcharges. U.S. domestic carriers have generally relied on broader fare adjustments rather than itemized fuel surcharges.

On capacity, United Airlines became the first major U.S. carrier to announce a defined network response, trimming approximately 5% of planned capacity effective in late March, with the reductions weighted toward off-peak flying and selected international service. United CEO Scott Kirby has publicly framed the move in scale-of-impact terms: at sustained prices near current levels, jet fuel alone would impose roughly $11 billion in incremental annual expense, a figure that exceeds the carrier's best annual profit on record. United is modeling oil at $175 per barrel (source) and is preparing for the possibility of elevated prices through 2027.

Delta has indicated it is prepared to follow with capacity adjustments of its own if the price environment persists; other carriers are reviewing schedules. Spirit Airlines, which had been operating under financial stress prior to the shock, has ceased all operations, removing low-cost domestic capacity from the market.

Capacity discipline of this kind is consequential. In a business in which fuel is approximately one-quarter of operating cost, absorbing a doubling of that input at unchanged schedules is not a viable bridge through the price cycle. Trimming marginally profitable flying while protecting the rest of the network is the standard operating response to a cost shock of this magnitude, and the speed with which United moved reflects the size of the implied annual cost.

Demand Impacts Not Clear Yet

Passenger travel fluctuates seasonally and is impaired by severe winter weather as well as tropical storm activity. Both complicate any short-window read of structural demand. There has been some degradation year-on-year in passenger counts in the most recent two months (Figure 1, blue bars, right-hand side scale), but the magnitude is modest and the timing too compressed to confirm that this marks the onset of a structural shift in air travel demand rather than seasonal and weather-driven noise. However, it is trending in a direction consistent with the price hikes due to supply shortages.

The cleaner test will come over the summer. Summer is normally the most resilient segment of the travel calendar. If year-on-year softness deepens through June and July, as surcharges and fare adjustments flow through booking patterns and as carriers' capacity adjustments propagate, the case for a structural demand response strengthens. If summer holds despite higher headline fares, the implication is that demand elasticity for travel is lower at current price levels than first feared, and the industry will have more room to recover costs than the present round of capacity cuts would suggest.

The Policy Implication and Takeaways for Policy-Makers

The federal response to the broader commodity shock has been most visible on crude oil. SPR releases have been deployed, RVP and Jones Act flexibility has been employed for refined products, and EPA has signaled some willingness to address compliance frictions in adjacent fuel pools. Jet fuel supply security has, by comparison, received less direct policy attention, despite aviation's role as critical economic infrastructure and despite the limited

substitutability of jet fuel within U.S. refinery yields in the short run.

The current adjustment is being borne primarily by carriers and passengers. If the Hormuz disruption extends through the summer, the question of whether the policy response broadens to address jet fuel supply security specifically (strategic stockpiling, refinery yield flexibility, or coordination with allied refining hubs) is likely to receive more attention from both industry and federal stakeholders.

The problem is especially pronounced in Europe, where risks of jet fuel shortages have already started to begin being talked about as a serious possibility. Europe is uniquely beset by structural and policy issues not present in the United States including a more aggressive regulatory environment, lack of as robust refining capacity, and NATO military priority access to the jet fuel pool, reducing the supply available commercially. From a policy perspective, there are a few specific options on the table, such as lowering required NATO fuel stockpiling in Europe are on the table and loosing specific fuel-grade requirements.

However, the most important takeaway is more philosophical than technical: governments should resist the temptation to make any policy distorting carriers options for distributing the effect of the shock. In cases like these markets are reliably efficient at preserving long-term infrastructure health while absorbing the costs in the most efficient way; any attempt at over regulation such as export restrictions or mandatory operation requirements will make the response less efficient and the long-term costs to the economy and consumers higher.

Matthew Sawoski, Senior Research Analyst
Max Pyziur, Research Director