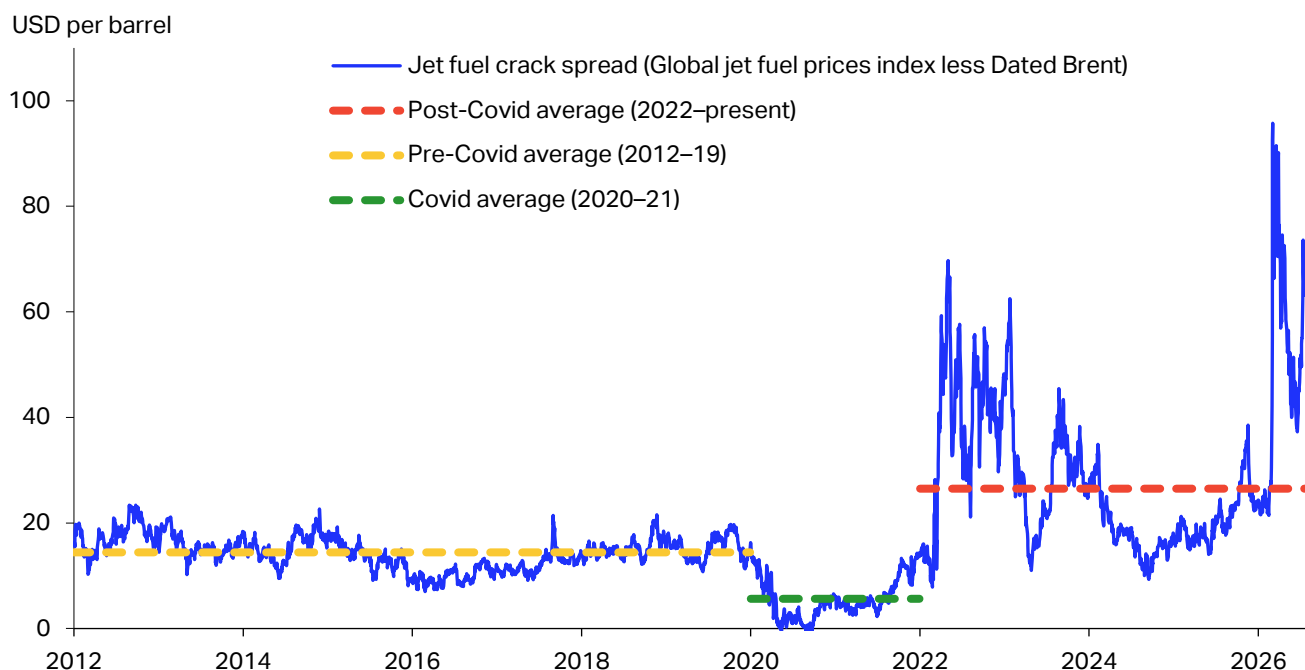


Structural Shifts Increase Jet Fuel Crack Risks

Jet fuel crack spread, USD per barrel



Source: S&P Global Energy Platts, IATA Sustainability and Economics

- Fuel is the largest operating expense for airlines. Jet fuel costs more than crude oil, and the difference between the two is called the jet fuel crack spread. Given the historically strong correlation between jet fuel and crude oil prices, airlines have been able to manage fuel price exposure primarily through crude oil market risks.
- However, this strong correlation has weakened in recent years following the post-covid recovery in oil demand. The market is now experiencing higher and more volatile crack spreads, and the recent average crack spread is over USD 12 per barrel higher than the pre-covid average. Challenges in the refining sector were already lifting expectations for higher average crack spreads from the lows seen in 2020-2021, but the increased volatility since then was unexpected.
- A consistent but uneven decline in refining capacity, particularly in developed economies, has intensified the supply concentration risks that were already present in crude oil markets. Regions with shrinking refining capacity have become increasingly dependent on imports from surplus regions, exposing them to external supply shocks. Moreover, the International Maritime Organization's low-sulfur regulation, effective since 2020, supported a higher floor for middle-distillate premiums, including diesel and jet fuel. The regulation requires shippers to use lower-sulfur fuel oil, increasing demand for the middle-distillate product stream (refined petroleum products captured from the middle boiling range during the fractional distillation of crude oil, and key products include diesel, jet fuel, heating oil, and marine diesel oil).
- Diesel tends to be the major driver of refinery profits. Disruptions in the middle-distillate and notably diesel markets can have a disproportionate impact on jet fuel availability and pricing. The war in Iran has crystalized the vulnerabilities in the jet fuel supply chains yet further, making fuel cost management increasingly challenging for airlines, in addition to the impact of the higher price of jet fuel.

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