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Europe's Jet Fuel Conundrum



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*By Irina Slav**

Tourism is a big industry in the European Union. It is arguably one of the biggest and most profitable ones. That industry took a severe blow from the Covid pandemic lockdowns and now, said industry is facing another shock along with all others that have anything to do with air transport. What's different this time is that government money is tighter than it was back in 2020 — and jet fuel supply is even tighter.

“While there are no shortages of fuel in the EU at present, regional supply constraints could arise in the next weeks if the blockage of oil supplies via the Strait of Hormuz does not get resolved,” the Commission wrote in a report on jet fuel supply discussions last week. The Commission went on to state that it stands ready to release jet fuel from stockpiles, noting that such a release should be coordinated at the EU level.

Airlines are downplaying fears of a jet fuel shortage – which would have a rather unpleasant impact on tourism revenues during peak season. Just this week, Reuters cited several industry executives as saying there was no danger of a shortage for the time being.

“We think the discussion on fuel is a little bit artificial as we do see no shortages for the next weeks, and I would also see no impact in the summer at all, except prices,” said the CEO of the largest tour company in Europe, Germany's TUI. It sounds like a dismissal but the reference to prices is important, because prices can become prohibitive, destroying demand for travel. And they probably will.

While executives try to calm tourists real and potential, the EU is looking for alternative jet fuel supply (which it apparently doesn't really need) and finding it in the United States. But it will come at a cost. The cost is potential safety issues due to differences between the kind of jet fuel used in Europe and the kind used in the United States.

The key difference between the Jet A-1 fuel used across most of the world, including Europe, and Jet A, is in their freezing point. Safety procedures and pilot training in Europe is based on Jet A-1 specifications and the switch to Jet A may interfere with standards, according to reports. The more interesting point, however, is whether European airlines really need the U.S. jet fuel if there is plenty in stock and there are no shortages looming on the horizon.

Prices, however, remain a concern. They are, in fact such a big concern that Lufthansa said it would cut 20,000 flights from its summer schedule because of them. Yet prices tend to rise when there is an imbalance between supply and demand, suggesting there is, if not a shortage, then a significant tightening of jet fuel supply.

While airlines ponder the price conundrum, the EU is focusing on that demand side, or rather, fixating on it – albeit perhaps inadvertently. The European Commission wants to extend its carbon emission tax to long-haul flights, affecting the bottom lines of major carriers such as British Airways and Air France.

The idea is part of an ongoing review of the EU's emissions trading system, which many are unhappy with. Yet it seems Brussels has misunderstood what industries are unhappy about, namely, getting penalized for emitting CO₂, and is making a solid effort to make more of them even more deeply unhappy. For now, the EU charges carbon taxes on internal flights, so the ones suffering the most are budget airlines such as Ryanair and WizzAir. Now, if the tax is extended to flights to and from non-EU destinations, which is being discussed, it will affect a lot more airlines. Meanwhile, jet fuel prices remain elevated with little chance of this changing any time soon, as the IEA warns that demand for oil products this year will exceed supply.

According to Bloomberg data, jet fuel prices, which hit a peak of \$233 per barrel earlier in the year, have retreated somewhat, currently at a bit over \$150 per barrel, but they are significantly higher than pre-war levels of below \$100. So airlines are cutting less profitable flights and raising ticket prices. And with the EU's carbon tax, airlines will in all likelihood raise ticket prices further. This will definitely trigger what the Commission likes to call demand flexibility. People will travel less because they won't be able to afford the tickets.

This is good news for net-zero advocates that like to count tonnes of CO₂ emitted. This summer, there will be less CO₂ emitted from the airline industry. There will also be less CO₂ emitted from the broader transport sector because the jet fuel issue is not an outlier but part of a trend. All fuels are going to remain more expensive than they were at the start of the year for an extended period of time. The question, once again, is whether it is worth to destroy economies for a few million tonnes of CO₂ in emission savings.

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