HIGH JET FUEL PRICES: AIRLINES ARE FULL BUT LOSING MONEY



Despite the global aviation sector experiencing record revenue growth, they are seeing profits fall as they grapple with high jet fuel prices. This is due to the geopolitical issues in the Middle East. It's not just the airlines suffering, but the whole tourism sector.

Airlines are increasing their prices, fuel surcharges and managing their capacity. **However, organized tourism players can't always increase their prices to match.**

This is causing a continual squeeze on margins. Some large organized tourism groups will see their EBITDA halved (sector sources). Energy price shock is having an impact.

Revenues Up, Profits Down

Major U.S. airlines are seeing fuel prices soar in Q3. Delta Air Lines, United Airlines, American Airlines and Southwest have all seen increased costs which have caused downward adjustments to profitability.

American in particular is suffering. They've seen fuel prices increase by around $1.9bn year-on-year in Q3. Delta and United have also seen reductions in guidance. Southwest is also in the middle of a major business transformation. They risk losing much of the gains from their new pricing strategies and increased unit revenues due to high jet fuel prices.

Alaska Air Group (Alaska Airlines & Hawaiian Airlines) reported a net loss of $147m due to strong revenue growth. They've also announced 200 employee cuts.

The Giants Feel the Heat

European majors also suffer:

Lufthansa Group have reduced their 2026 adjusted operating profit to between €1.7-2bn (from €1.7-2.2bn). They've seen fuel prices rise to €9.3bn for the year, an increase of €600m compared to 3 months ago and around €2bn higher than in 2025.

Air France-KLM have exceeded operating profit expectations in Q3. However, they've reduced their capacity growth for the full year. Fuel prices are expected to rise to $9.2bn in 2026 (from $8.9bn previously). This is an increase of $2.3bn when compared to 2025.

International Airlines Group (IAG – British Airways, Iberia, Vueling, Aer Lingus & Level) have seen revenues increase but operating profits have fallen 16%. They've had to reduce their capacity further due to high jet fuel prices and disruptions.

Turkish Airlines have been one of the success stories. They've seen operating profits of $929m in Q3. However, they've seen jet fuel prices increase by 118% since the start of the year.

Low-Cost Under Pressure

Even Europe's low-cost players are feeling the squeeze. Ryanair have introduced new cost saving measures. Their CEO Michael O'Leary has mentioned fuel prices are one of the biggest unknowns for the upcoming financial year. Wizz Air are also reviewing their bases, capacity and operations. The consistently high fuel prices are causing the end of ultra-low fares.

Ticket Prices Climb

ITA Airways (Lufthansa Group) are looking to break even in Italy. However, fuel is proving to be a challenge. The CEO Joerg Eberhart estimates fuel costs will increase by around €170m in 2026. He mentions it's difficult to fully pass this on to customers. He calculates that at current fuel prices, a traditional airline would have to increase their ticket prices by 15-20% to negate the increase. This shows how much of a challenge this is for the wider tourism sector. If the airlines can't fully pass this on to customers without affecting demand then it creates a squeeze for those putting together the packages.

The Domino Effect

The most frustrating part of this crisis is the impact it is causing to tour operators. Air transport is a key element of package pricing, especially for long haul, organized and charter based holidays.

Airlines try to pass some of the increase onto customers through higher tariffs and fuel surcharges where possible. Tour operators however are facing a dilemma. They can increase final prices and risk losing competitiveness and customers or absorb some of the costs and reduce profitability.

Difficulties Passing Costs

If packages have been sold far in advance then the price has already been set. European legislation allows prices to be increased to cover higher transport costs such as fuel. However, this must be included in the contract and the customer must be informed at least 20 days prior to departure. If the increase is over 8% of the total package price then the customer can cancel free of charge.

In a competitive market asking a family to pay hundreds of extra for their holiday once they've already booked will cause issues with trust and could lead to cancellations and lower sales in the future.

Fewer Flights, Higher Fares

The fuel issue is causing a shift in strategy for the industry. Airlines are less willing to run low-margin routes and focus on routes that will give them a reasonable return on investment. This means fewer flights, delayed route launches and reduced bases. This hurts the destinations and operators who rely on air transport. Both network and low-cost players are seeing this.

The 2027 Challenge

Tour operators are already looking ahead to 2027. They'll need to create new catalogues, secure airline deals and set package prices. They'll need to consider the unknown future costs of air transport.

Large groups can use their leverage, diverse suppliers and hedging to reduce the impact. Smaller companies will be more vulnerable due to less leverage and less financial cushion.

There is still uncertainty due to the geopolitical issues. If tensions ease in the Middle East then the

fuel prices could come down. However, this will not happen quickly.

The real issue is how long the tourism sector can absorb the increased costs without passing them fully onto customers. The biggest risk is that the sector will continue to grow but businesses will lose out on value. The whole supply chain will end up paying for the high jet fuel prices.

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