

Are Jet Fuel and Diesel Prices Vulnerable to Crude Oil Markets? Implications for Emerging Energy Sources

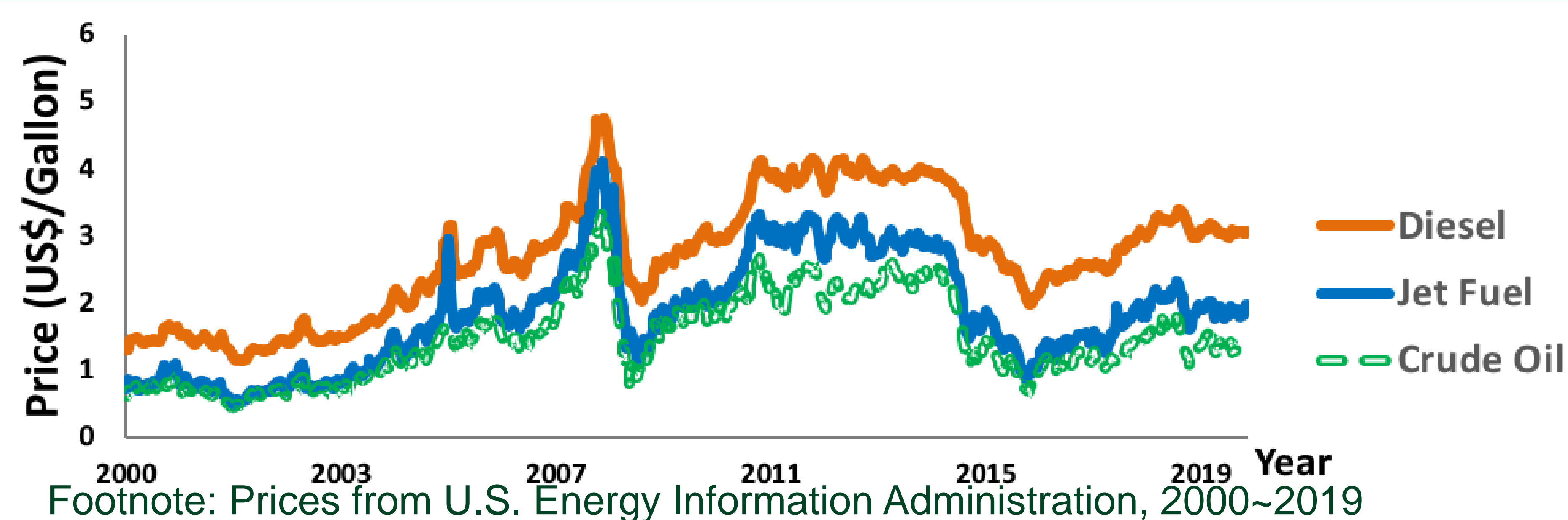
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BACKGROUND

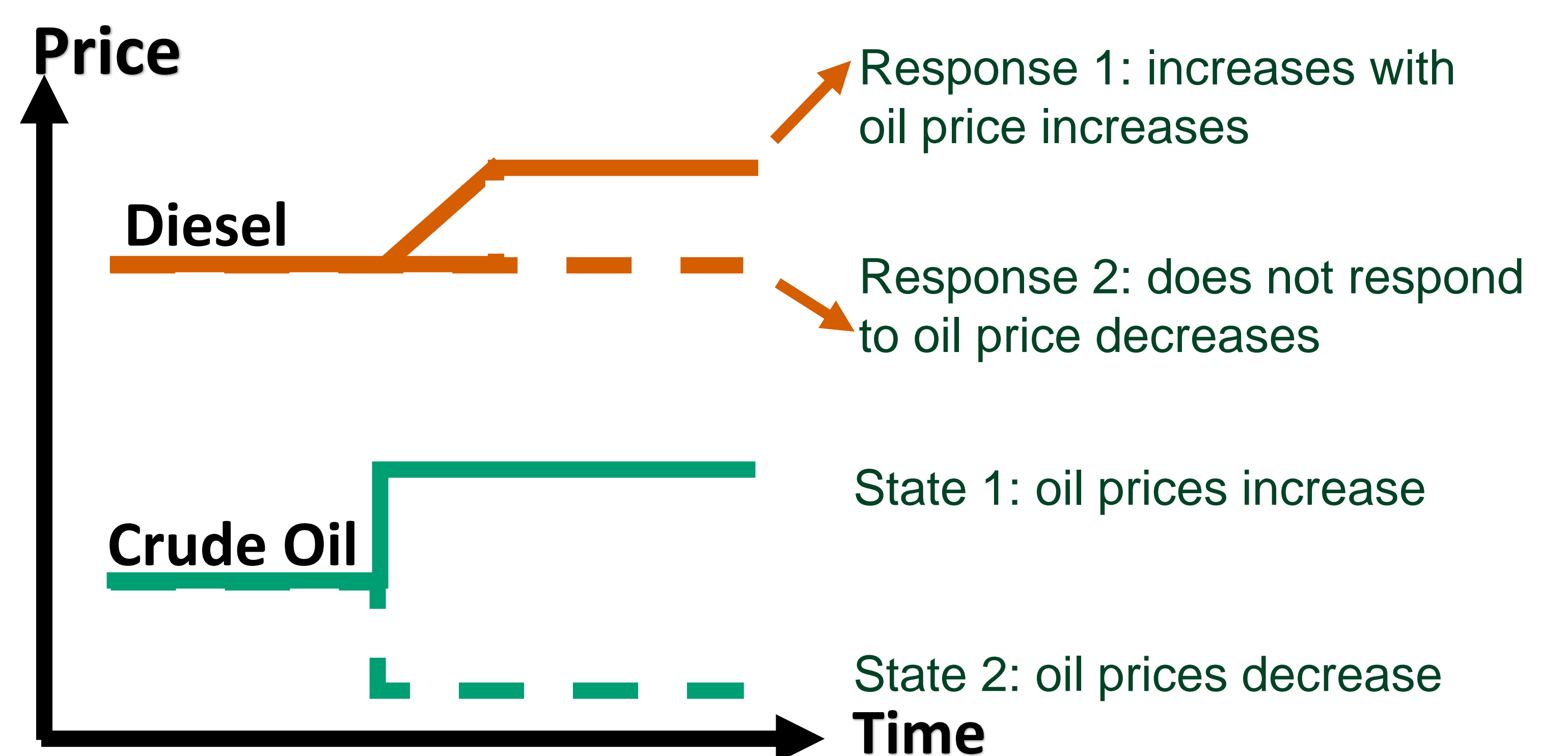
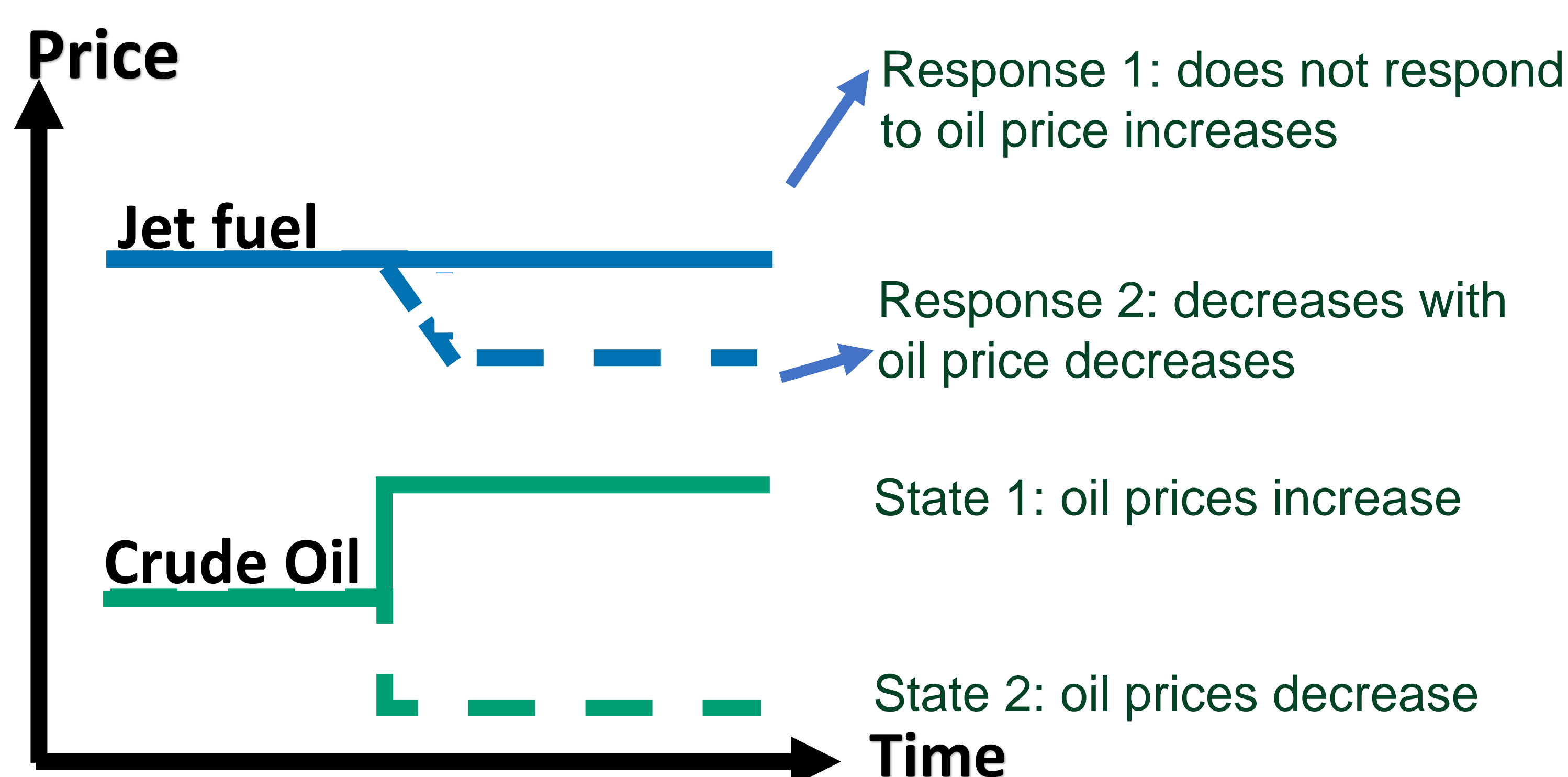
- Crude oil is currently a key input for making jet fuel and diesel.
- New technologies are trying to substitute biomass for crude oil to make biojet and biodiesel.
- Potentials for future emerging biojet and biodiesel industries will be influenced by current price relationships between crude oil and jet fuel / diesel.
- How do jet fuel and diesel firms respond to crude oil price increases vs. decreases?
- We investigate this question using nonlinear time series models.



RESULTS



- All three price series show substantial fluctuations over time.
- Oil and jet fuel/diesel prices move together in the long run.
- Short-run adjustments are asymmetric depending on whether oil prices increase or decrease.



IMPLICATIONS

- Risk management within the jet fuel and diesel industries might improve with diversification of input supply (oil + biomass vs. just oil).
- Biojet (with biomass inputs) may be especially attractive to jet fuel producers because they are unable to pass increased oil costs through to consumers.

PARTNERS

