

Rise in Aviation Turbine Fuel Prices

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At a time when domestic airlines are struggling to keep their costs down, the steep rise in ATF prices will further stress airlines' finances. Eventually passengers will have to bear the brunt of rising ATF prices as airlines will have no options but to pass it on.

Impact of Rise in Prices

- **Aviation turbine fuel (ATF) accounts for 35-50% of the cost of running an airline in India.**
- The flurry of price increases will further stress the balance sheets of airlines who are making efforts to stay afloat.
- The price of ATF was raised by 16.3% to ₹39,069.87 per kilolitre in New Delhi.
- The sharp increase in jet fuel prices is despite a more than 35% drop in global crude prices in the past year.
- **Indian airlines spend at least 40-50% more on ATF prices as compared to several of their contemporaries across the world.** As international operations are closed, airlines don't even have an option to buy ATF at a cheaper rate from abroad.

Cause for Rise in Prices

- State-run oil marketing companies follow import-parity pricing, and crude oil price has recovered from its historical low of \$14 a barrel in April.
- The ATF offtake has picked up with domestic flights beginning operations.
- Airlines have to **pay taxes for certain services**, such as 'throughput charges', 'into-plane charges' and 'fuel-infrastructure charges' when they take the ATF at any

airport for their planes.

- Since ATF doesn't come under GST, these **charges are taxed multiple times as they are billed in a circuitous manner.**
- Eg: The billing for throughput charges is done by the airport operator to the oil company. The oil company passes on the charges by billing airlines. However, taxes such as GST and excise duty and VAT is added on to throughput charges. If the throughput charges levied by the airport operator is only Rs 100, the airline ends up paying Rs 164 as it is paying "tax on tax", which includes the goods and GST, excise duty and VAT. Had the throughput charges been invoiced directly by the airport operators to the airlines, the latter would have got the input tax credit for the GST paid and there would be no application of excise duty or VAT.
- State governments impose **high VAT** on ATF since it's a major source of revenue and are reluctant to let go of it since they're cash strapped due to the lockdown and lack of economic activity.

Source: *Live Mint*