ATF Prices & Civil Aviation Sector: A Critical Study of Government Policies

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Abstract

The civil aviation industry possesses various unique features and problems as well. Those problems and perspectives can be reasonably classified from the rest of the industrial sectors. The regulatory framework in the civil aviation sector has not been developed in India. Most of the decisions are made through policy reforms, which change frequently. There is a communication gap between the government and the stakeholders. The Aircraft Act of 1934 was enacted prior to the enforcement of the Indian Constitution and did not address the key issues in the area. This is the principal legislation governing the civil aviation sector that is only in the area of issuing licenses to fly aircraft. Statutory authorities like the DGCA and AAI are under the control of the Ministry of Civil Aviation. India is going to be a super-hub of the civil aviation sector in the next few decades, but this seems impossible due to various regulatory and operational barriers. The domestic civil aviation sector urgently needs policy reforms to address its problems. This sector is on the back foot in terms of financial stability due to a lack of clear laws and policies. Huge operational cost is a major concern. Air turbine fuel prices are deregulated, which is a major concern. All these collectively contribute to creating hurdles in the path of the civil aviation sector in India. The researcher has studied the problems of the civil aviation sector in this paper with special emphasis on uncontrolled ATF prices and their effect on the domestic civil airline sector.

***Keywords**: ATF, Operating Cost, Civil Aviation, Tax, Duties.*

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INTRODUCTION

The majority of Indian airlines still require government assistance due to the lingering effects of the pandemic and the elevated price of aviation turbine fuel. India has risen to become the third-largest domestic aviation market in the world, and by 2024, it is predicted to surpass the UK to assume that position. Stakeholders in the aviation industry have long advocated for policy changes that will enable India to become a global hub for passenger and aircraft maintenance, repair, and operations due to India's favourable geographic location between major Asian and European countries. Additionally, contributing 5% to the GDP, Indian aviation generated 4 million new jobs. Additionally, this sector contributes a gross value added to the GDP of US$72 billion. The aviation sector offers global connection, a crucial role in promoting tourism, and an important role in natural catastrophes or even in conflicts. In times of famine, the aviation industry is responsible for handling food, supplies, and people's transportation. The aviation sector not only moves people from one location to another but also makes a significant contribution to the global movement of all kinds of goods. When compared to the same time last year, domestic freight traffic grew by 19.9% from April to September 2022. Despite of this, the civil aviation sector is facing various problems as well. The profit margins are considerably less as compared to other industrial sectors due to excessive operational costs. The majority of the profit share is spent on the maintenance of aeroplanes, purchasing of parking slots at airports, uncontrolled air turbine fuel prices, and expenditure on human resources, safety, and security according to the international standard. The deregulation policy has made the market very competitive; hence, the slightest increase in airfare is having a serious effect on the profit margin. The laws and policies on the civil aviation sector are at a developing stage in India.

Research question: Uncontrolled ATF prices or Defective Laws and Policies; what affects the dismal financial performance of the Civil Aviation sector in India?

A BRIEF OVERVIEW OF THE CIVIL AVIATION SECTOR

The aviation sector is divided into two categories. One is civil aviation, and the other is Military aviation. Military aviation is not the subject of this research article. Civil Aviation is further divided into two categories- Domestic & International. There are various organisations working at the international level to ensure the smooth functioning of civil aviation. The United Nations passed the Chicago Convention, which is also known as a charter of civil aviation activities. The International Air Transport Association (IATA) is a private body of civil aviation companies worldwide. These two organisations are playing important roles in shaping the civil aviation sector at the domestic and international levels. The civil aviation sector, especially the domestic sector, has certain problems that need to be addressed as early as possible; otherwise, they will take the shape of big problems in the future.

PROBLEMS IN THE DOMESTIC CIVIL AVIATION SECTOR

As per the Union Ministry of Civil Aviation, the industry in FY 2020-21 suffered a loss of Rs 12,479 crore, and in FY 2021-22, it was Rs. 11,658 crore.[1] The operating costs and regulatory barriers are discouraging new investors from entering the civil aviation market in India. The COVID-19 Pandemic has forced further losses in the aviation sector due to the lockdowns worldwide and restrictions from 2020 to 2022. Hence, the civil aviation sector is suffering from all these difficulties. The International Air Transport Association (IATA) predicted a bright future for the Indian aviation sector on the basis of strong fundamentals, but regulatory and procedural barriers are the major obstacles.

The Indian Civil Aviation sector is one of the fastest-growing sectors in the world. India must offer them every essential assistance. It is necessary to modify or revise laws and policies concerning them. Liberalisation has changed the global scenario. New approaches and new challenges are being developed at the same time. Natural disasters such as volcanic eruptions, poor weather, and the ongoing threat of the pandemic have caused this business to suffer unexpectedly. COVID-19 is an example of a disaster that has brought down the civil aviation industry throughout the world.

Despite the fact that India's civil aviation sector is now ranked as the world's third-largest domestic civil aviation market, it is hampered by a number of issues. The following are the major challenges to the Indian Civil Aviation Sector's growth.

MAJOR CHALLENGES

1. There is no pricing regulator - A price regulator is required to keep ticket costs under control.
2. DGCA is not publishing the required material in the aviation sector. Researchers have to rely on private circulations like magazines, news articles, and reports from

[1] IANS, "Indian aviation industry suffers over Rs 24,000 Cr. loss in 2020-22", *infra.com from The Economic Times*, Feb 2, 2023, *available at*: https://infra.economictimes.indiatimes.com/news/aviation/indian-aviation-industry-suffers-over-rs-24000-cr-loss-in-2020-22/97550848 (last visited on: 22.03.2024)

private agencies.

3. Passengers are suffering because of the lack of claims and compensation policy.
4. No proper aviation lawyer is available in India. Since the government's policies on this sector are not clear.
5. Lack of knowledge of Air Passenger Rights. Passengers do not even know their rights, especially domestic passengers who are travelling for hardly one or two-hour air journeys.
6. The majority of Airline Companies have been doing their business for hardly 4 to 5 years, and thereafter, they shut down their operations. Jet Airways was the biggest domestic private airline company that was allowed to fly at the international level, but it has also shut down its business since 2019 due to excessive debt.

All these are policy-related challenges in India's Civil Aviation sector. The following are the major issues identified by the researcher while doing research in this area.

1. Government Intervention

Frequent government interference is proven to be a significant impediment to the aviation industry's progress. Several aviation experts have stated that the Indian government should support the aviation business by removing regulatory barriers such as controlling airfares and lowering taxes, especially those on jet fuel. Furthermore, the Government is concentrating on infrastructure development and the air navigation system. The Indian aviation sector, which accounts for 5% of GDP, employs four million people, with another seven million people employed by tourism and associated industries. As a result, greater efforts are required to build infrastructure that will support future growth. In nutshell, Government is eying on revenue only rather than solving actual problems.

2. **Higher Airport Cost**

The Airport Authority of India charges higher airport (aeronautical) fees. The fees charged at international airports are greater than those charged at domestic airports. As a result, local airlines in India are suffering higher expenses at internationally designated airports while receiving no additional benefits. In other words, domestic airlines pay at par with international airlines at international airports, which is a discriminative policy of the government. The airport fees charged by Indian airports (domestic and international terminals) are among the highest in Asia and the Gulf. Aviation firms will be burdened much more as a result of this.

3. **Stiff Competition**

Due to ticket pricing, the top airline is up against stiff competition. Low-cost carriers are threatening established airlines by cutting into their market share. Top premium airlines were compelled to lower their ticket prices by 15 to 20% in order to maintain their market share. Such a price cut will, in the long term, lead to a price war among airlines, with the only objective of expanding market share. There is unhealthy competition amongst low-cost carriers, ultra-low-cost carriers, and premium carriers, and this results in the instability of airline companies.

4. **Foreign Investments**

A foreign airline company is now allowed to invest in Indian air carriers. The Indian government had allowed cent percent FDI in scheduled air transportation sectors, state-level air transportation and domestic scheduled passenger airline business under automatic route of investment. An investor who wants to operate scheduled air services in India shall have to fulfil these conditions:

- The Operators permit, and Principal Office must be registered in India,
- Chairman & its 2/3rd Directors are to be Citizens of India,
- The Indian National must have substantial ownership and effective control.

All Foreign Investors who are willing to invest either in Scheduled or Non Scheduled airline businesses must possess Security Clearance before entering through FDI. There are several regulatory processes for international airlines that invest in the airline sector of India, including the Ministry of Civil Aviation, the Directorate General of Civil Aviation, The Indian Securities and Exchange Board, the Foreign Investment Promotion Board and the Reserve Bank of India. Furthermore, any immigrants who wish to work for the airline must first get security clearance. The demise of Kingfisher, Jet Airways, Air Sahara, Air Deccan, and now Air India has created fear in the minds of Foreign Investors. Lots of procedural and policy hurdles made FDI initiatives fruitless.

5. **Land Acquisition Problems**

Land Acquisition is the major concern in the development of various projects in India. The

Rehabilitation model in India has created serious problems over the years. The Land Acquisition for the construction of new airports or renovation at airports causes inordinate delays in many cases. The proposed International Airport at Pune has still not been finalised owing to the acquisition of land in the last 20 years. If this was the picture, then how could our civil aviation sector grow further, and how could India become the largest aviation sector in the world? Various areas were notified as high-security zones by the Ministry of Defense, which further aggravated the issues. The Defense Department does not share its air space and aerodromes for civil aviation activities. This has resulted in a shortage of land for expanding airports and airstrip operations.

All these above policies are directly affecting the performance of the Civil Aviation sector in India. The Government shall rethink its Laws and Policies. On one hand India is allowing deregulation of the airline industry but on the other hand doing nothing for the proper growth of this sector. India is privatising all sectors by selling its share in the market. Infrastructure and maintenance at the airport are now provided to private companies through a bidding process. The highest bidder will get the contract, but the experience is that allotting a contract to the highest bidder does not entail the desired results. It has been proved in Brazil and Australia that the highest bidder failed to yield the results.[2]

EFFECT OF AIR TURBINE FUEL PRICES ON CIVIL AVIATION SECTOR

The sector anticipates action from the Union Government to address pertinent policy measures, particularly those linked to taxation, which has been long overdue. The majority of Indian airlines still require government assistance due to the pandemic's lingering effects and the elevated price of aviation turbine fuel. The cost of the aviation sector is huge and the major burden is put on by the Air Turbine Fuel. The taxation on ATF is a matter of concern. Various countries do not allow any tax benefit for aircraft registered in foreign countries. Indian Parliament passed the Foreign Aircraft Exemption from Taxes and Duties on Fuel and Lubricants Act, 2002.

The Civil Aviation Policy relating to Air turbine fuel and lubricants is prescribed in this legislation. The cost of air travel is determined by the cost of ATF, i.e., Air Turbine Fuel. The policy of the Indian government regarding ATF is to give exemption to foreign aircraft from paying taxes and duties on fuel and lubricants. This exemption is in accordance with the

[2] Prof. Anne Graham, "Airport Privatisation: A Successful Journey?", 89 *Journal of Air Transport and Management* (2020), *available at*: https://doi.org/10.1016/j.jairtraman.2020.101930

Convention on International Civil Aviation, which is well known as the Chicago Convention. India has passed the above legislation as per the mandate of the Chicago Convention. The policy in this area is mostly governed by Bilateral Agreements. The aircraft of the contracting countries mostly benefited from the inception of this legislation.

The case of ***M/s BPCL*** v. ***M/s Etihad Airways of UAE***[3] has thrown a clear light on the actual execution of government policies on the exemption of Taxes on Fuel and Lubricants according to the Foreign Aircraft Exemption from Taxes and Duties on Fuel and Lubricants Act, 2002.

Bharat Petroleum Corporation Ltd. (BPCL) has entered into an Agreement with Etihad Airways from 1st April 2013 for the purpose of refuelling Etihad Airways aircraft at Mumbai, Delhi, Bangalore and Trivandrum Airports. Etihad Airways operates only International Flights to and from the above-mentioned Indian Airports. In 2013, Etihad agreed to buy a 24 % stake in Jet Airways as a part of the UAE Carrier's Equity Partnership Strategies. In Mumbai, on 31st May 2013, Etihad Airways operated Indian-registered aircraft (Jet Airways aircraft) for their scheduled International Flights. BPCL supplied ATF to Etihad Airways at nil sales tax rates even though the aircraft used by Etihad Airways are Indian-registered. These transactions created a cause of action, and the issue was- to determine u/s 56(1) (f) of the MVAT Act as to whether ATF Supplies can be made at nil Sales Tax rate to Etihad Airways using Indian Registered Aircraft of Jet Airways?

The contention from Etihad Airways was that the United Arab Emirates is a party to the International Convention on Civil Aviation 1944 and entered into an Air Service Agreement with India. Etihad Airways, being a national airline in the UAE, is eligible to get ATF supplies at NIL sales tax rates. However, Etihad Airways' claim was denied, and the Commissioner of Sales Tax, Maharashtra State, Mumbai, imposed a tax on the sale of ATF supplies to Etihad. Hence, after studying this, the researcher felt that the ATF policy is not liberal in India.

How are ATF prices fixed?

Hindustan Petroleum Corporation Ltd., Bharat Petroleum Corporation Ltd., and Indian Oil Corporation Ltd. are the three principal OMCs that provide ATF to Indian airlines. An Administered Price Mechanism (APM) that had previously controlled ATF prices in India was abolished in April 2001. In accordance with predetermined capacity utilization, the government set the price of ATF under the APM, guaranteeing a defined profit margin for the oil marketing

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[3] C.F., Proceedings before Commissioner of Sales Tax Maharashtra, DDQ/11/2013/Adm-6/39/B-1, 05.01.2015.

companies (OMCs). However, ATF pricing was adjusted to a market-based system due to the ever-increasing weight of subsidies on the government. Since that time, the OMCs have set the price of ATF based on the current price of crude on the international market plus input expenses.

ATF is made from Brent petroleum, which India imports from OPEC, and as a result, the price of ATF is influenced by changes in the price of crude oil around the world. ATF is not shipped as a completed goods into India. The Indian carriers, being the single largest user of ATF, are the worst affected, especially as the price of ATF in India has been rising continuously in recent years. Indian carriers currently pay a 65 percent higher price for ATF than their foreign competitors. This makes the domestic carriers loss-making entities by preventing them from properly competing with the global players. The airlines are also placed at a serious disadvantage on account of the irrational tax structure of ATF and cartelisation of the OMCs through monopoly pricing.

The price of ATF is based on the import-parity principle. The price structure includes the import price of crude oil, import duties levied by the government, and the cost of refining crude. According to the revised numbers, The government on February 4th, 2023, revised windfall gains tax with the Centre adjusting its Special Additional Excise Duty (SAED) on crude petroleum by Rs 3,150 per tonne, diesel and air turbine fuel (ATF) by Rs 2.5 per litre each. From the current rate of Rs 1,900 per tonne, duty on unrefined oil is anticipated to rise to Rs 5,050 per tonne. ATF will now be subject to a litre-based tax of Rs. 6 instead of Rs. 3.5. [4] This will additionally add to the operating cost of airline companies in India. There are other additional taxes like VAT, customs duty and excise tax, which are imposed by the state governments on ATF. At the same time, the Indian aviation industry has been requesting the Indian government to bring aviation turbine fuel under the Goods and Services Tax regime for several years. This move will benefit the airline sector, and airline companies will able to take an input tax credit if it is covered under the GST regime, but it still remains in the pipeline.

Fuel prices are a major cost component for Indian airlines as they account for more than 50 % of an airline's expenditure as against the global average of nearly 30%. The cost of the ATF used

[4] ET Online, Government hikes windfall gains tax on crude, diesel and ATF, *The Economic Times*, Feb. 04, 2023, *available at*: https://economictimes.indiatimes.com/industry/energy/oil-gas/government-hikes-windfall-gains-tax-on-crude-diesel-and-atf/articleshow/97598456.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (last visited on: 21.03.2024.

in foreign flights is lower because the imported crude used in its production is exempt from customs taxes. ATF sold for foreign bound flights was declared as a 'Deemed Export' and Domestic carriers' aviation turbine fuel (ATF) purchases for international flights are exempt from 11% basic excise duty. Indian carriers could have profited from the advantage of affordable ATF for operating in the international segment, but they are unable to do so due to their small market share. The ATF purchased for domestic operations is charged more than international operations, which is clearly a defective and discriminative policy of the Government. Recently, the data revealed by the DGCA says that passengers carried on international flights operated by Indian carriers accounted for 43.5% of total overseas travel in October-December 2022. It was 39.2% in the corresponding period of 2019.[5] These data show us that domestic airlines are ready to compete but need to be treated at par with international airlines to compete against international giants like Emirates. Another typical constraint faced by Indian carriers to fly internationally was that they must have to their credit at least five years of domestic operations and a minimum fleet size of 20 aircraft, referred to as the 5/20 rule. This condition has now relaxed, and if a domestic airline has 20 aircraft, then it can fly on international routes. So the condition of 5 years of domestic experience is now no longer required to fly internationally. One sure way to curtail fuel costs is to increase international operations. But, the major international carriers operating in India, such as Emirates, Qatar and Etihad, have been increasing their seat capacity on lucrative routes to attract passengers. Here the role of government should be very liberal. Furthermore, the ATF price is decided with heavy taxation.

Tax Burden on ATF

In India, there is no direct import of ATF, and the ATF supplied by the Indian oil companies is from imported crude refined by them. The import duty for ATF is 20%. Oil companies thereby follow an import parity principle and levy a 20% add-on to the refinery transfer price[6]. Higher ATF prices are a major concern and it has to be addressed at global forums. Fuel prices are a major cost component for Indian airlines as they account for 35-40% of an airline's expenditure as against a global average of nearly 30%.[7] Indian Government levies various taxes on ATF,

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5 Gaurav Joshi, "Indian Carriers Grab a Bigger Share 0f International Market" *Simple Flying* Mar. 08, 2023, *available at*: https://simpleflying.com/indian-carriers-bigger-share-of-international-market/ (last visited on: 07.01.2025)

6 Import parity is a price-setting mechanism for a commodity in which the price is set based on the cost of importing the commodity into a location. Import parity is calculated as the cost of the commodity in the source location, plus the cost of delivery to the destination.

7 Anu Sharma, "Maharashtra reduces VAT on ATF to 18%" *Mint* Mar 09, 2023, *available at*: https://www.livemint.com/news/india/maharashtra-reduces-vat-on-atf-to-18-11678379878735.html (last visited on: 21.08.2024)

which are summarised below:

1. **Custom Duty**

ATF is refined in the nation and subject to a 10% tax even though it is not imported as a finished good. Counter veiling tax (CVD) cess and IGST are added to this basic duty, totalling 15.5%. However, only ATF lifted for domestic operations are subject to this obligation. If the next portion of the flight is a domestic route, fuel that is still in the aircraft's tanks after finishing an international operation is subject to customs duty, according to Customs Circular 65/2001, dated November 19, 2001.

2. **Excise Duty**

Around 11 percent of excise is levied on ATF. Airlines are already reeling under record-high fuel prices. Confusion arose on whether or not excise duty was leviable on domestic airlines for their foreign flights after the government slapped a ₹6 per litre special additional excise duty on the export of jet fuel from July 1, 2022. Now, the Government has made it clear that there is no excise duty on the international operations of domestic carriers, but the domestic sector is still suffering.

3. **Sales/State Tax**

Sales tax varies from 5 % to 30 % state-wise. Hon'ble Minister for Civil Aviation has appealed to State Governments to reduce the Sales Tax on ATF, and accordingly, various governments have replied to it positively. Recently, in a respite for airlines, the state government of Maharashtra announced a reduction of the value-added tax on aviation turbine fuel to 18%, a reduction of 28% from the current level of 25%. In a scenario of high fuel prices, this step will prove to be a catalyst to ramp up air connectivity.

The reduction in VAT on jet fuel in Maharashtra is a significant step as the state capital, Mumbai, is the second largest hub for airlines in India. Mumbai handled over 14% of international and domestic passenger traffic in India in January 2023, as per the data from the Airports Authority of India. Delhi has the largest airport in the country, and Delhi and Mumbai have a combined market share of more than 30% in the domestic segment. So far, Andaman & Nicobar Islands, Uttarakhand, Jammu & Kashmir, Ladakh, Tripura, Madhya Pradesh, Himachal Pradesh, Uttar Pradesh, Arunachal Pradesh, Haryana, Dadra and Nagar Haveli and Daman and Diu, Manipur, Jharkhand, Mizoram have reduced the VAT on ATF to 1-4%. Gujarat has decreased the rate to 5% from 30%, Goa has brought it down to 8% from 18%, and Karnataka has reduced it to 18% from 28% earlier. All these proactive moves are welcomed by the civil aviation sector.

4. **Value Added Tax (VAT)**

It is crucial to comprehend the intricate nature of the VAT levied on different petroleum products, including ATF. To prevent the cascading impact of taxes, VAT has largely replaced sales tax in India. With the exception of alcohol, gasoline, diesel, ATF, lottery tickets, and other motor spirits, the prices of which are not entirely decided by the market, all commodities, including declared products, are subject to VAT and eligible for Input Tax Credits (ITC). These exclusions must continue to be charged in accordance with the Sales Tax Act, State Acts, or even a provisional VAT Act, with a uniform floor rate chosen by the Empowered Committee. The following are the main implementation cracks for VAT:

- ATF is taxed at special rates that are significantly greater than the standard VAT rates rather than at the regular VAT rate.
- Despite the fact that ATF is the taxed end product of crude oil, neither input (crude) nor the capital goods used in exploration nor refining are eligible for an input tax credit.
- ATF is subject to a multi-point tax, but there is no consistency across states because some impose a single-point tax and others a multi-point tax.
- In addition to the VAT, some states also impose other fees, like the cess.
- There is no access to even the Input Tax Credit for entry fees.
- There are still unrecoverable taxes on ATF that cannot be passed on to customers. Irrecoverable taxes on ATF are still being levied, and their impact cannot be passed on to consumers.

5. **Throughput Charges**

At airports, airstrips, and helipads across the nation, fuel-related fees are assessed as Airport Operator Fees, Fuel Infrastructure Fees (FIC), Into Plane Fees, or a combination of the three, commonly referred to as Fuel Throughput Fees (FTC). The world's best practices for airports advise against charging fuel suppliers a double fee for the use of the airport's land as well as a market access or concession fee for opening up business opportunities when the airport operator is not providing any underlying tangible service. Global carriers Emirates and Air France, too, had opposed the charges. Airlines have argued against the tax and encouraged the government to abandon it, as in Europe. Airlines have also complained of double taxation as both airports and oil companies collect tax in the process. IATA is opposed to airports levying charges on aviation fuel services that are not cost-related and justified. Thus, due to these agitations, in January 2020, the Government of India finally scrapped the FTC, and this move will help airlines earn close to Rs 500 crore per year. Fuel is one of the highest-cost components for airlines.

Thus, Air Turbine Fuel is heavily burdened with discriminative tax structures. The sector also requires favourable tax policies, with the industry's stakeholders frequently calling for the reduction of ATF-related duties or the inclusion of the sector in the scope of the goods and services tax (GST).

SUGGESTIONS

The United Nations should have played a vital role in drafting the regulatory policy on fuel prices. There is a need for a Fuel Price Regulator. It will definitely improve the financial performance of aviation companies in India.

The ATF prices are not regulated in India. OMCs are levying charges on their own. ATF price is revised on the 1st of every month based on the average rate of international benchmark and foreign exchange rates. This directly affects ticket prices, and ultimately, the passenger suffers. The government is getting revenue, but the interest of the consumer is being neglected. The Civil Aviation Ministry had not paid attention to the much-needed legal reforms. The delay or negligence in the establishment of the Oil Regulatory Authority is contributing to huge operational costs for the airline industry. The monopoly of oil companies in the fixation of ATF prices is a major obstacle to the growth of airline companies. Below are the suggestions for reducing ATF prices in India.

1. *Incentives for the good performers in ATF Prices*

The Indian Government should start an encouragement scheme for aviation companies. The performance of an aviation company should be tested on the feedback of the passengers. The incentives for fuel prices should be given on the basis of good, better, and the best performer. This will reduce the cost of airline companies, and healthy competition will survive.

2. *Establishment of Air Turbine Fuel Price Regulatory Authority*

The cost of expenditure on ATF in India is more than 50% of the total airline operational cost. Hence most of the airlines are not even recovering the basic cost of the expenditure. This is the primary cause behind poor financial performance by airline companies in India. The prices of ATF are rising, and there is no regulatory control over them. Hence, there is an urgent need to create the Air Turbine Fuel Price Regulatory Authority. There has been a long demand from aviation stakeholders to bring the ATF under the purview of the Petroleum and Natural Gas Regulatory Board (PNGRB), but it is learned that the state-owned oil companies themselves had opposed the move despite several requests forwarded by the Federation of Airlines in India. The ATF prices are fixed by the oil companies with lots of ambiguity and a multiplicity of taxes. On the first day of every month, the state-owned firms Indian Oil Corporation (IOC), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) modify the rates of ATF and LPG to reflect the foreign exchange rate and the average international benchmark fuel price.[8]

Hence, the creation of an independent ATF price regulatory authority is a necessity. It will definitely prove helpful for domestic air carriers, which will result in better financial performance.[9]

3. *Hedging of Aviation Turbine Fuel (ATF)*

Deregulation of commodity hedging is proceeding slowly. Domestic airlines have to procure ATF only through domestic refineries at International Prices. Since they are not physically

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[8] ET Online, "ATF price hiked by over 3 per cent in Delhi, Mumbai", *The Economic Times* Nov. 01, 2024, *available at*: https://economictimes.indiatimes.com/industry/energy/oil-gas/atf-price-hiked-by-over-3-per-cent-in-delhi-mumbai/articleshow/114842571.cms?from=mdr (last visited on: 23.12.2024)

[9] Arindam Mazumdar, "No independent regulator for ATF price: OMCs", *Business Standard* Mar. 29, 2016, *available at*: https://www.business-standard.com/article/economy-policy/no-independent-regulator-for-atf-price-omcs-116032801220_1.html (last visited on: 12.08.2024)

importing the commodity, the airlines are not permitted to hedge the commodity risk.

In an upward-moving oil regime, the airlines have no option but to see their input costs explode and, whenever possible, pass on the same to passengers. A similar situation was faced by local refiners on hedging their refinery margins where the Government and RBI came out with a notification permitting national oil companies to hedge their refinery margins without having physical imports/exports. At a time when there are concerns about crude continuing to be floored at USD 70-75 with no apparent ceiling in sight, it becomes even more relevant to seek relief through the hedging market. An urgent re-look at the present oil/petro products hedging regulations is needed. Domestic airlines should be permitted to hedge their ATF price risk. Many global airlines have used fuel hedging for effective risk management for themselves. US airline companies are hedging and benefitting in such a volatile market. Hence, the ticket prices can be fixed at a stable rate for a few months if hedging is permitted in India.

4. ***Use of Sustainable Aviation Fuel (SAF)***

India should encourage the use of SAF to reduce the carbon emission level. It is an alternative to ATF. In order to achieve the net-zero carbon emissions goal, the aviation sector must reduce emissions as much as possible at the source, which can be done by using sustainable aviation fuels (SAF), cutting-edge new propulsion technology, and other efficiency enhancements (such as improvements to air traffic navigation). The government should invest more money in R & D of the SAF. Financial incentives, such as Production Linked Incentives (PLI) and tax exemptions, will be essential to encourage early investments in SAF facilities.

These are the suggestions to reduce ATF prices until the proposed Oil Price Regulatory Authority came into existence.

CONCLUSION

The domestic civil aviation sector is expanding. It has huge potential to contribute to GDP. The laws and policies should be supportive. Problems exist, but perspective is the target. New companies are ready to enter this sector, but the policies have to be changed. ATF prices are a major concern, and they should be addressed preferentially. The National Civil Aviation Policy needs to be amended, and the suggestions given by the researcher must be accepted. ATF should be freed from heavy taxation, and the benefit to the consumer should be in terms of quality services and competitive ticket prices. Regulation of ATF is the key to success in the civil aviation sector. Recently, to minimise emissions from aviation activities that require offsetting of emissions above a baseline value, ICAO has introduced the Carbon Offsetting & Reduction Scheme for Aviation (CORSIA). The CORSIA Programme is divided into three stages: Pilot Phase - (2021-2023), First Phase - (2024-2026) and Second Phase (2027-2035).[10] While the pilot and first phases are optional, the second phase is required for all ICAO member States. The Indian government has chosen not to take part in the CORSIA voluntary phases. For Indian carriers, the CORSIA offset obligation will begin in 2027. Now, it is in the hands of the Indian government to either reduce the duties or encourage renewable energy options like Sustainable Aviation Fuel.

[10] Ministry of Civil Aviation, "Initiatives taken by MoCA to promote sustainable development in the aviation sector and reduce carbon emissions at airports" *PIB Delhi* Mar. 22, 2023, *available at*: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1909435 (last visited on: 24.08.2024).