KFA APPLICATION ON ATF-DIRECT IMPORT

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.

• Apart from the import parity principle, oil companies also include a 16% to 49% add on towards marketing margin and contingencies on the refinery transfer price (the add on varies between various cities).

• On this central government levies an excise duty of 8%.

• On the resultant price, the various state government levy local sales tax ranging from 4% to 39% which on an average works out to be around 25% countrywide.

• The Government levies thus work out to an add-on of around 35%. Due to the discrepancy in the sales tax charges at various states, the airlines tend to fill up more fuel than required at the state where the sales tax is minimal. By doing so, the aircraft weight increases and this leads to burning of more fuel thereby contributing to operational inefficiencies.

Uniformity in taxes

• One option is to reduce the excise duty to 4% and to undertake necessary measures to remove the disparity in the state levied taxes and enforce a common uniform rate which is the bare minimal. ATF may be put under "Declared Goods" category to bring about uniformity in levy of sales tax.

Direct import of ATF by airlines

• Allowing airlines to import ATF may help in reducing the cost by almost 25% than what the airlines are paying to the oil companies. Even after the 20% import duty is paid, the price of the fuel will be lower than what is charged currently. Airlines however will have to consider the logistics of importing fuel, including warehousing.

Responsibility of oil companies

• The Indian oil companies must consider themselves as critical stakeholders of the aviation industry. Accordingly, they must ensure that they share the responsibility in sustaining the growth of the Indian aviation sector by trying to cut down on their marketing margins and contingencies charges imposed on the ATF price. The relatively monopolistic situation that the oil companies enjoy may probably come in the way of doing so. However considering the long term good of the industry, this is desirable.

Sharing of distribution network and infrastructure

• Sharing of Distribution Network and Infrastructure of the Oil Marketing firms can eliminate overhead channel costs.

Fuel hedging

• Indian carriers may develop the necessary expertise for fuel hedging and try to offset the fluctuations in the fuel prices, thereby reducing their operational costs.

Indian airline sector is being troubled by rising air turbine fuel (ATF) prices caused by high sales tax and other levies. Various taxes imposed by government on ATF is one of the reasons of higher cost of domestic aviation fuel; Kolkata topped the charts for highest jet fuel prices at Rs.68,769.64 per kilo litre, followed by Chennai at Rs.61,687.17, Mumbai at Rs.60,733.64.

Domestic jet fuel is being sold at a much higher price than other Asian cities like Kuala Lumpur, where ATF is sold at Rs.41,009.33 per kilo litre, followed by Singapore at Rs.42,289.90 and Dubai at Rs.43,087.33.

Jet fuel prices have increased by 30 percent since December 2010, and domestic airlines are expected to lose Rs.3,500 crore in the first six months of this fiscal. The fuel comprises 50 percent of the operating cost. On average, sales tax on jet fuel is in the range of 22 percent to 35 percent depending on various states.

To help the financially-pressed aviation sector, the government may allow airlines to import their fuel directly. The move would help airlines save at least Rs 2,500 crore annually, a fourth of their total aviation turbine fuel (ATF) bill of Rs 10,000 crore.

ATF is the channelized product which means that only the govt. of agencies are allows to import the fuel into India. As of now, only Indian Oil Corporation can import jet fuel. Currently airlines buy ATF from oil companies. It is imported on their behalf. That is why they have to pay hefty states sales tax. By importing directly for their own consumption, the airlines would not have to pay the levy. If the state governments do not have a long-term view and continue to tax ATF sales, the industry's financial position will get worse.

The exemption proposed is for the entire sector. Kingfisher Airlines had earlier applied to the DGFT (under the commerce ministry) for allowing it to import fuel directly. It had suffered a loss of Rs 1,027 crore in 2010-11 and has debt of Rs 7,057 crore. A consortium of 13 banks now holds 23.4 per cent stake in the airline.

Fuel cost for an airline operating in India is around half its total operating cost. It used to be 40 per cent of the cost barely a year before.

Allowing any airline to import oil directly will require the government to change the Foreign Trade Policy (FTP). DGFT has the power to relax the norms, provided certain stringent conditions are met as laid out in the FTP, which categorically mentions there has to be a genuine damage in the event of which this relaxation can be given The FTP of 2009-2014 stipulates that import of ATF will be allowed through a particular state trading enterprise, and in India, it is only the Indian Oil Corporation that can import jet fuel.

A direct ATF import by KFA will need the approval of Directorate General of Foreign Trade (DGFT) case by case basis in to the merit. If DGFT find out the merit in the KFA application then they may allow. Final approval will come from the Cabinet.