

Aviation Turbine Fuel Pricing and Airline Crisis in India

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Aviation Turbine Fuel Latest News

- Indian airlines have raised concerns over rising Aviation Turbine Fuel prices, warning of operational disruptions.

Aviation Turbine Fuel (ATF): Basics

- Aviation Turbine Fuel (ATF) is a refined petroleum product used as fuel in aircraft engines, particularly jet engines.
- It is derived from crude oil and is similar to kerosene in composition, but with higher quality specifications to ensure safety, efficiency, and performance at high altitudes.
- ATF is a critical input cost for airlines, accounting for 30-50% of total operating expenses.

ATF Pricing in India

- ATF pricing in India is **market-linked but not fully deregulated** like petrol and diesel. Prices are revised periodically by oil marketing companies (OMCs).

- The price of ATF varies across states due to differences in **state-level taxation (VAT)**, making India one of the costliest markets for aviation fuel.

ATF Pricing Formula

- The pricing of ATF is based on a combination of international and domestic factors.
 - **International Benchmark Prices:** ATF prices are linked to global jet fuel prices, which in turn depend on crude oil prices.
 - **Exchange Rate:** Since crude oil is imported, fluctuations in the rupee-dollar exchange rate directly affect prices.
 - **Freight and Insurance Costs:** Transportation and logistics costs are added to the base price.
 - **OMC Margins:** Oil companies include refining and marketing margins.
 - **State Taxes (VAT):** States impose VAT ranging from 1% to over 25%, leading to price variation across locations.
- Thus, ATF price = Import Parity Price + Refining Margin + Freight + Marketing Margin + State Taxes.

Challenges in ATF Pricing

- India's ATF pricing faces structural issues.
 - **High taxation** increases operational costs for airlines.
 - **Lack of uniform tax structure** leads to regional price disparities, affecting airline route planning.
- ATF is currently outside the GST framework, which prevents input tax credit benefits.

News Summary: Airline Concerns over Rising ATF Prices

- Leading Indian carriers such as Air India, IndiGo, and SpiceJet have warned of possible operational disruptions or shutdown risks due to rising fuel costs.
- The sharp increase in ATF prices has significantly raised the operational burden on airlines, as fuel constitutes the largest expense component.
- Airlines are struggling to absorb these costs, especially in a competitive market where ticket prices cannot be increased proportionately.
- **Impact on Airline Viability**
 - Persistent high fuel costs are affecting the financial health and sustainability of airlines.
 - Some carriers have indicated that continued cost escalation may lead to capacity reduction, route rationalisation, or service disruptions.
- **Demand for Policy Intervention**
- Airlines have urged the government to take measures such as:
 - Bringing ATF under the GST regime.
 - Reducing state-level VAT.
 - Providing temporary relief measures to stabilise the sector.
- These steps are seen as necessary to ensure the survival and competitiveness of the aviation industry.

Source: <https://vajiramandravi.com/current-affairs/aviation-turbine-fuel-pricing/>

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