

Meeting on Rationalisation of ATF prices

Presentation by the
Ministry of Civil Aviation
to the Oil Companies

July 10, 2007

Airlines are an important part of the National economy

- Aviation as a major driver for economic growth & investments
- Critical role in providing transport & connectivity
- New airlines, budget travellers & an expanding economy – feeding growing traffic
- Size of the market has more than doubled between 2003 & 2006 – in terms of passengers, aircraft & also the fuel-uplift
- Airlines bear responsibility also of providing air connectivity to remote regions of the country

The Ministry's Agenda

- Impart health to the domestic Airline industry
- Prevent a repeat of early 90's shutdown of numerous airlines
- Ensure & sustain current levels of market expansion
- Expand airport infrastructure
- Provide enabling conditions

The State of Airline business in India

- **Fiercely competitive**
 - Market expansion driven also by aggressive pricing
 - Airlines selling below costs
- **Deal with only monopoly players**
 - Airports, Fuel suppliers, Aircraft mfrs, Equipment, Employees
- **Budget model demands firm control on costs**
 - A high cost environment in India: Fuel, wages, airport charges
- **Airlines are still adding capacity with new planes**
 - 150 aircrafts in 2002 to 300 in 2007. Expected to further double by 2010
- **Collective Losses of Rs 2000 crore in 2006**

There are diverse elements which contribute to high cost of ATF

- Import Parity Pricing mechanism
- State Sales Taxes
- Customs & Excise Duties
- Throughput fees
- Lack of common distribution infrastructure

...The Ministry is addressing each one of these separately

The Reality on ATF

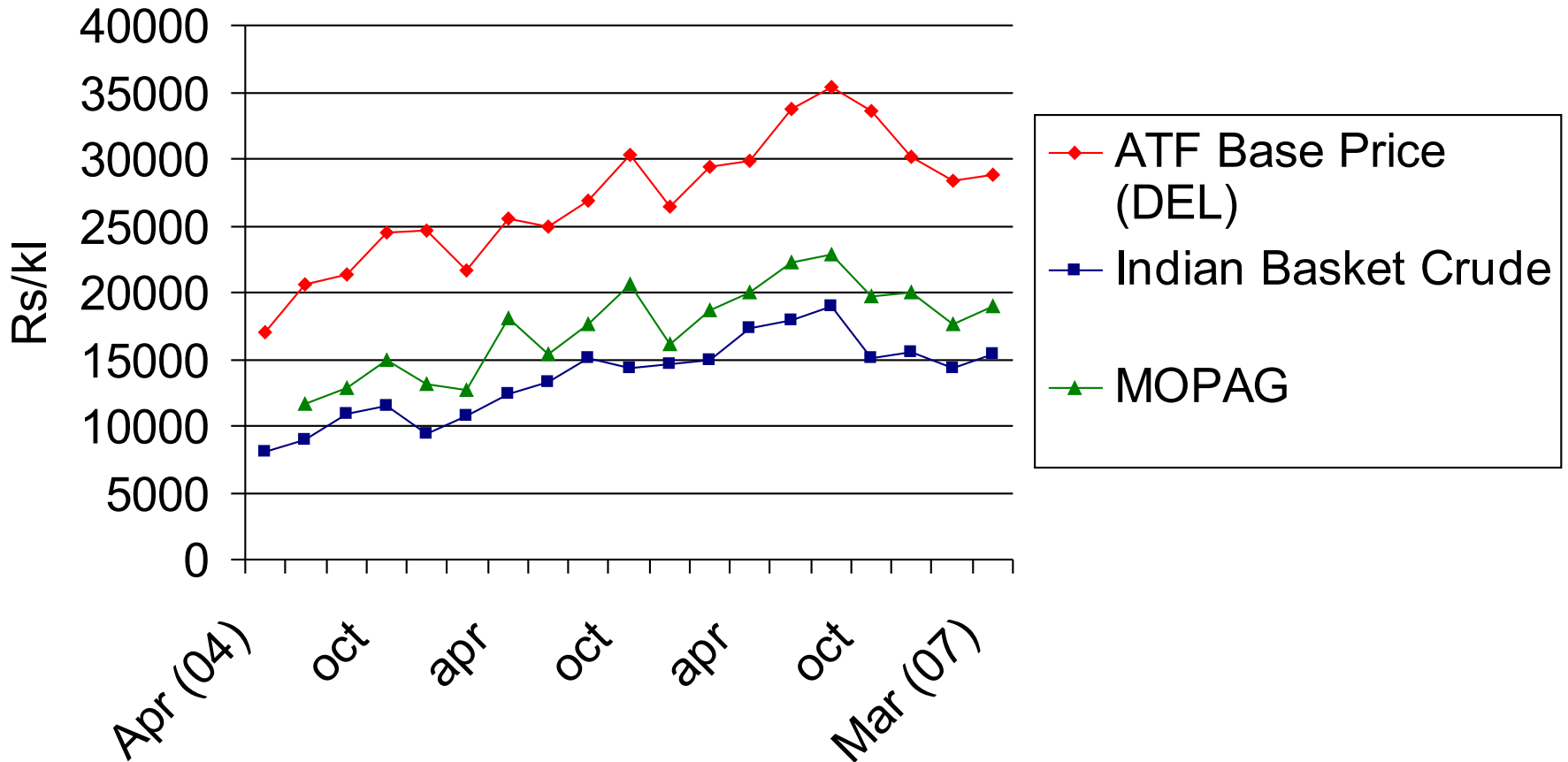
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- ATF Contributes to 40% of the operating cost of airlines
- Priced 65% higher in India on an average, compared to international benchmarks
 - Indian carriers bought ATF at Rs 37,800 / kl in April 07, while international carriers paid only Rs 21,800 / kl in Singapore, which is about 73% higher
 - An FIA estimate indicates that a reduction in ATF price by 60% (to bring it closer to international benchmarks) has an impact of lowering airline operational losses by 25%
- High ATF charges not only a domestic airline issue
 - IATA deeply concerned
 - Hurts India's prospects of being even a regional aviation hub
- A reduction of even Rs 1000 / kl translates to a saving of Rs 500 crore for the sector

The Reality on ATF

(2 of 5)

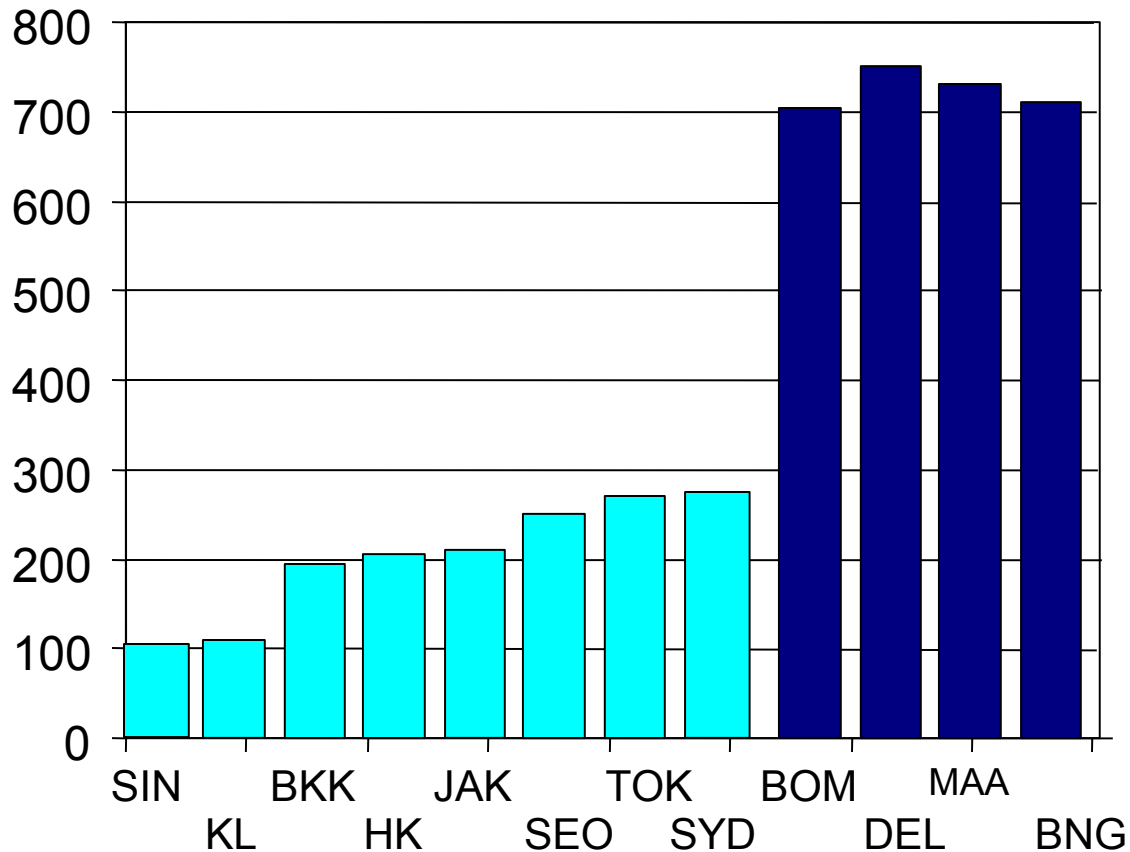
ATF Price Movement



The Reality on ATF

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Comparative fuel prices (Apr 06)



This chart shows the comparative fuel prices at various airports in the Asia Pac region.

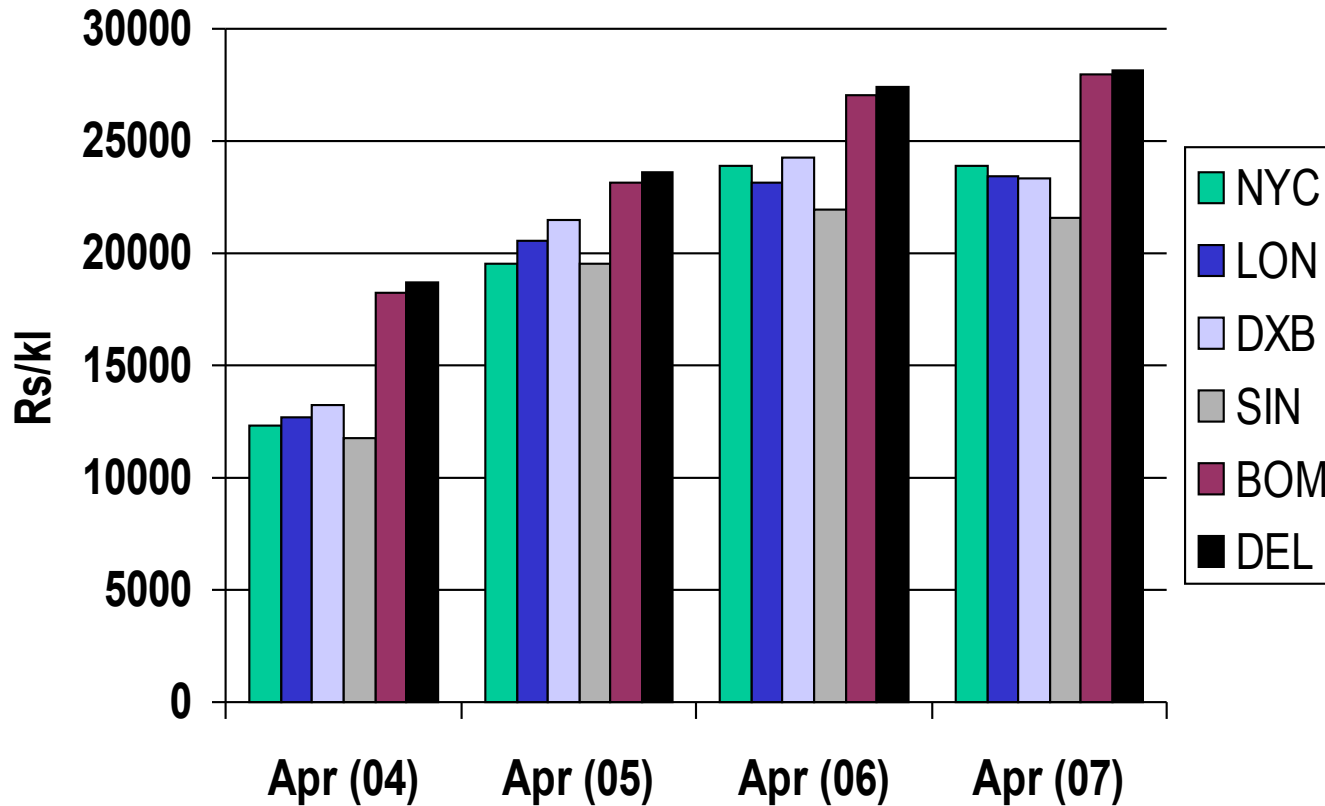
The comparison is on the portion excluding the Platts marker (MOPS) – the differential

For April 2006, the differential at Indian airports are about 6 times higher than that in SIN.

The Reality on ATF

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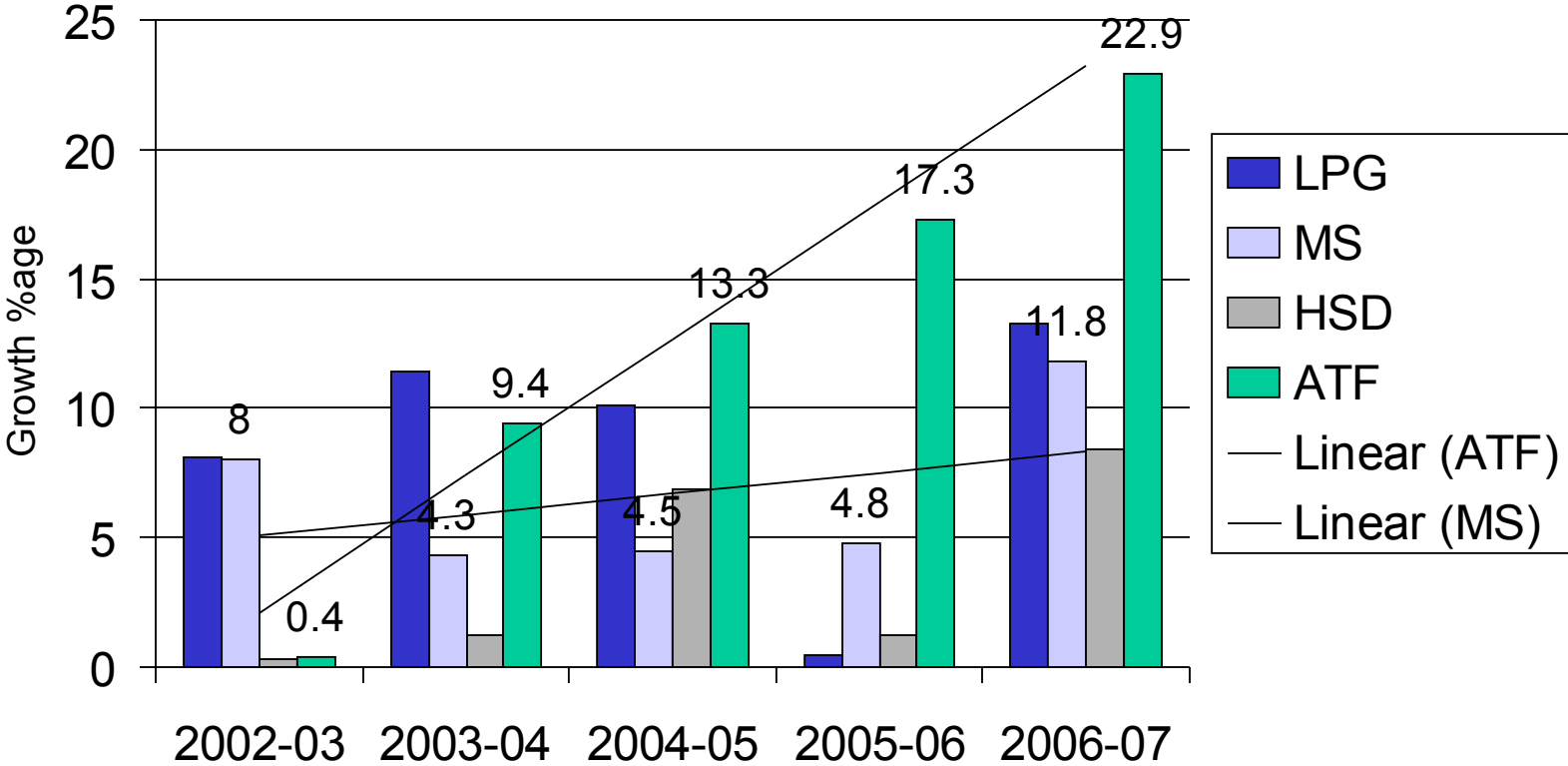
ATF Bonded price for International flights



1. There exist vast differentials even for bonded price for international flights.

2. ATF uplifted by foreign bound aircraft has been declared as a “Deemed Export” since Apr 2006 & the fuel suppliers have been made eligible for exemption of custom duty at the time of importing crude. However, till date the Oil Companies have not passed on any benefit to the airlines.

Consumption of Petroleum Products



- High Base Price of ATF
 - Base price is a building block on top of which various taxes are levied
- Lack of transparency in Pricing
 - From April 2005 to October 2006, the crude price registered a net increase of 16.2%, while the oil companies have passed on a net increase of 31.6% to domestic carriers
 - Determination of the Base Price ?
 - Price build-up mechanism ?
 - High Marketing cost (high variations b/w stations)
 - To move towards detailed breakup in Airlines' fuel billing

Issues for Discussion

(2 of 2)

- **Introducing Competition in Supply**
 - Granting Marketing rights to additional players
 - Import through a new consortium of airlines/agencies
- **Sharing of ATF Distribution Infrastructure**
 - AAI buying out distribution infrastructure of oil companies & providing equitable access to other oil companies

Oil companies as a stakeholder in Aviation growth

- Airline travel no longer elitist
- ATF consumption has roughly doubled from 2002 to 2007
 - Increased fuel-uplift has resulted in increased ATF sale revenues. Even a small voluntary reduction in profits by oil companies can spur a higher growth
- Aviation growth expected to stay over 25 % p.a.
 - Opening of skies resulting in more domestic & international flights
 - Infrastructure expansion
 - All Ingredients for higher ATF consumption
- While India is an ATF surplus country, there is no cost benefit for the domestic aviation sector

Aviation growth is driving future investments

- Increased engagement by global aerospace majors
- MROs
- Greenfield / brown field Airports
- Defense Production & R&D facilities
- Freight / cargo to be the next growth driver
- Training establishments

... There is room for significant market expansion

A focus on revenue maximisation alone could jeopardise India's aviation growth...

... Oil companies are critical stake-holders in India's aviation growth. The oil companies thus have a shared responsibility towards ensuring that the exponential growth in aviation is sustained.