THE COST OF FLYING: AN ANALYSIS OF THE LEGAL AND POLICY FRAMEWORK GOVERNING AVIATION TURBINE FUEL PRICING IN INDIA

Puranjay Chawla, B.A.LL.B. (Hons.) National Law University Odisha

ABSTRACT

This essay examines the legal, constitutional and economic dimension of Aviation Turbine Fuel (ATF) pricing in India, with specific attention to the relationship between taxation, fiscal federalism, and the affordability of air travel for the masses. ATF is the single most critical input in the aviation sector, accounting for approximately 40 to 45 per cent of an airline's operational cost. This, in turn, makes ATF pricing the most influential variable in the economics of the flight industry. This essay argues that the high cost of ATF is not merely a consequence of global crude volatility or exchange rate fluctuations, but a creation of India's fragmented legal framework which places ATF outside the ambit of the Goods & Services Tax (GST) and subject to divergent state VAT rates and central policy interventions.

Against this backdrop, this essay asks why ATF continues to remain outside the GST regime, how the current hotpot of Union and State taxation contributes to interstate price variation, and whether recent measures such as VAT reductions and the Centre's price stabilisation framework amounts to meaningful reform or a mere act of pushing the major issues under the rug.

The central argument of the essay is that ATF pricing in India reflects a deeper federal distance between a nationally integrated aviation sector and a fragmented fiscal structure, where cooperative federalism has not yet produced the degree of tax and fiscal uniformity required for a coherent and accessible aviation policy. Thus, the primary question of this essay is to understand whether ATF should continue to be treated as an ordinary taxable commodity like others or whether its strategic importance to national connectivity must be harboured and honed using a uniform legal framework.

The significance of this essay is heightened by India's rapidly expanding aviation sector and its larger public policy objective of increasing the availability, accessibility, affordability and geographic extent of air travel. Historically, India has recorded extremely low per capita air travel compared with mature aviation markets such as the United States, allowing substantial room for growth. The Ministry of Civil Aviation envisions for the Indian air traveller, to reach the frequently cited figure of 2.1 annual air trips per person, rivalling those of the most economically developed nations. The gap between the current per capita trips and the figure of 2.1 nevertheless demonstrates the scale of India's potential in aviation and the added importance of addressing structural cost barriers.

This essay aims to contribute to the larger legal and strategic debate, by balancing academic analysis and practical strategic concerns, leading towards the determination on how India can secure the growth of its aviation sector and its public transportation network, which is often of national and strategic importance.

Keywords: Indian Aviation, Aviation Turbine Fuel (ATF), Goods & Services Tax (GST), Value Added Tax (VAT), fiscal federalism, uniform legal framework.

Introduction

The industry of flight in India stands at the crossroads of economic liberalisation, national connectivity, regional development and consumer welfare. What was once treated largely as an elite mode of transportation, has increasingly emerged as an important component of India's broader infrastructure and development strategy. Series of innovations such as the advent of low cost carriers, establishment of greater airport infrastructure and regional connectivity has allowed a greater number of passengers to access the experience of flight.[1] This growth, although commendable, is but stunted and leaves considerable untapped aviation potential. The policy weight carried by aviation is pivotal, particularly because air connectivity can facilitate commerce, tourism, employment and rapid access to essential services. The importance of this industry, therefore, lies not merely in the movement of passengers but rather in its capacity to integrate remote and economically underdeveloped regions with national hubs and centres.[2]

This rapid expansion, however, has been limited and constrained by the industry's operational and cost structure. The single largest, and most significant cost among them is Aviation Turbine Fuel (ATF), or simply, jet fuel. ATF has been identified as one of the most expensive inputs in the industry and accounts for approximately 40-45 per cent of airline operations cost.[3] One can

[1] K. Chandrashekhar Iyer & Nivea Thomas, *An Econometric Analysis of Domestic Air Traffic Demand in Regional Airports: Evidence from India,* 93 J. AIR TRANSP. MGMT. 102046 (2021).
[2] Chayanika Senapati, Nripendra Narayan Sarma & Smritishikha Choudhury, *Envisioning Turnaround in Indian Aviation—The Case of Jet Airways,* EMERGING ECON. CASES J. (2025).
[3] S. Kar, *Cross-Hedging Aviation Fuel Price Exposures with Commodity Futures: Evidence from the Indian Aviation Industry*, IIMB MGMT. REV. (2021).

thus understand that, fuel expenditure constitutes a disproportionately large component of airline costs, and any increase in the cost of ATF most certainly impacts fares, operating margins, route viability and financial stability of the carrier.

The cost of ATF in India is not an exclusive determination based on crude prices or fluctuations in the value of the rupee, it is majorly shaped by the legal and fiscal framework governing the production, sale and taxation of petroleum products. Since ATF remains outside the GST framework, it is instead subject to a combination of central duties and state level VAT. This continued exclusion gives rise to a fragmented tax structure which can vary substantially from state to state, producing differences in the tax burden imposed on the airlines depending uponthe location of where fuel is purchased. This leads to a rather interesting practice of over fuelling of aircrafts, by operators at specific locations due to the cost advantage offered by it.[4]

This relates to the broader question relating to the exclusion of petroleum products from the GST framework. The reform was introduced as a structural alteration intended to reduce cascading taxation, harmonise indirect taxation and create a common national market. ATF, thus, lies as an anomaly to this model. States retain an important source of revenue and fiscal autonomy, while airlines that operate in a nationally integrated market remain exposed to the divergent state tax policies. The legal problem, therefore, is rooted in the tension between two competing objectives; preserving the fiscal and financial autonomy of states while ensuring tax uniformity, ease of business, and economic efficiency in a nationally important sector.

Alongside establishing its central argument, that there exists a structural mismatch between a nationally integrated aviation market and a fragmented fiscal framework, this essay addresses three interrelated research questions. Firstly, why does ATF remain outside the GST framework, and what constitutional, fiscal and regulatory consequences follow from its continued exclusion? Secondly, how does the existing distribution of taxing powers between the Union and the states contribute to the interstate variation in ATF prices? Lastly, the essay explores what legal and institutional reforms can India adopt to meet the requirement of reconciling fiscal federalism with the need for affordable, predictable and nationally coherent aviation fuel pricing?

[4] R. Sindhwani, J. Jayaram & D. Ivanov, *Meeting Economic and Social Viability Goals in Regional Airline Schemes Through Hub-and-Spoke Network Connectivity,* ANN. OPER. RES. (2024)

Methodologically, this essay adopts a doctrinal and policy based approach. It attempts to examine the relationship between GST, state VAT and aviation regulations, while taking references from scholarship concerning aviation demand, fuel price volatility and petroleum taxation at large. This essay thus argues, that ATF pricing is a question of public law, since the tax structure directly influences the affordability of air travel and the viability of many regional routes. ATF pricing, therefore, must preserve the constitutional values of fiscal federalism while recognising that fiscal federalism by its nature, requires national uniformity and fiscal coordination.

Why does ATF remain outside the GST framework?

Aviation Turbine Fuel remains outside the existing GST framework because the Constitution (One Hundred and First Amendment) Act, 2016[5], did not bring petroleum products and its derivatives within the ambit of GST. Instead, Article 297A (5)[6] provides for the GST Council to recommend the date from which GST may be levied on petroleum products of various kinds, including ATF. Until the making of such recommendation, ATF exists in the pre-GST era, regulated by Union levies and state controlled VAT.[7] The exclusion was, thus, neither an oversight nor an accident, but a carefully planned constitutional compromise intended to protect the revenue interests of the states alongside the centre.

1.1 Constitutional and Fiscal rationale

The primary reason for the exclusion of ATF from the GST universe is majorly revenue based. Petroleum products and their derivatives generate substantial and mostly predictable revenues for the Union and the states. Brining ATF under the banner of GST could limit the ability of the governments to impose separate taxes, lead to a reduction in immediate revenue autonomy and require an agreement with respect to the applicable GST rates, revenue sharing formula to be followed and transitional compensation owed to the states. The continued exclusion consequently reflects the tension between the objective of creating a common national market and the fiscal dependence of governments on petroleum taxation.

---

5 Constitution (One Hundred and First Amendment) Act, 2016, No. 16, Acts of Parliament, 2016 (India).
6 INDIA CONST. art. 279A, § 5, amended by Constitution (One Hundred and First Amendment) Act, 2016.
7 K. J. Joseph & L. Anitha Kumary, *India's GST Paradigm and the Trajectory of Fiscal Federalism: An Analysis with Special Reference to Kerala,* 71 INDIAN ECON. J. 185 (2023).

The exclusion also gives rise to an alternate issue, the advent of the input tax credit problem.[8] GST is designed as a value added tax wherein, tax paid on business inputs, such as operational costs, can be credited against tax payable on outputs, such as sales of tickets. Since ATF falls outside the GST framework, airlines cannot claim GST input tax credit for the taxes which lay embedded in their fuel expenditure against the liabilities which are accrued from their services. This in turn, gives rise to a cascading effect; tax paid on fuel becomes part of the airline's costbase rather than a recoverable business input. In a fuel intensive industry, this burden is ultimately paid by the passenger availing such services.[9]

1.2 Constitutional, fiscal and regulatory consequences

It is but evident that this exclusion preserves state authority over VAT rates while weakening the uniformity offered by GST. States can alter ATF taxation according to their requirements and revenue preferences, while airlines attempt to maximize on fuel in the cheapest destination. The result is regulatory fragmentation, tax burden is completely dependent upon, and varies by location.[10]

The regulatory consequence of this structure leads to the lack of a nationally coordinated framework, with airlines required to respond to different state rates, periodic concessions and administrative oversight. The exclusion, therefore, may protect the revenues of the states but impose a serious burden on airline efficiency, competition, and ultimately the affordability of a ticket. The central legal question is whether this balance remains defensible when aviation is increasingly treated as essential national infrastructure rather than a purely commercial service.[11]

How does the existing distribution of taxing powers between the Union and the states contribute to the interstate variation in ATF prices?

Through the previous sections, this essay has established that ATF pricing is a director consequence of India's divided tax structure. Even though aviation operates through a

---

[8] Ajitesh Kir, *India's Goods and Services Tax: A Unique Experiment in Cooperative Federalism and a Constitutional Crisis in Waiting*, 69 CAN. TAX J. 391 (2021).
[9] J. Haran & S. Ojha, *Petroleum Products Under GST: A Trade-Off Between Government Revenue and Consumer's Welfare,* 56(7) MGMT. ACCT. J. 37 (2021).
[10] *Inclusion of Petroleum Products Under GST: An Analysis of Revenue Impact to Central & State Governments*, 8(1) VISION J. INDIAN TAX'N (2021).
[11] Sacchidananda Mukherjee, *Inter-Governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India,* 5(1) J. DEV. POL'Y & PRAC. 74 (2020).

nationally regulated framework, the legal authority to tax ATF is distributed between the Union and state governments. Current official data records state and Union Territory VAT rates ranging from 0 to 29 per cent[12], with further concessions often available for regional flights, international carriers, or airlines operating from designated hubs.

This variation exists due to ATF not being brought within the GST universe. States, therefore, retain substantial discretion to determine the rate, structure and exemptions applicable to ATF under their respective fiscal policies and laws. Article 246A[13] creates a concurrent legislative authority for GST, while Article 279A[14] establishes the GST Council as the primary institution for coordinating GST policy, Despite such actions, since ATF remains outside the GST framework pending a recommendation under Article 297A (5)[15] as mentioned above, state rates continue to operate independently. The result is not merely a difference in the taxation burden, but a difference in policy objectives. Many states implement lower VAT rates and award greater concessions to attract airline hubs, increate refuelling and stimulate air activity, while others simply protect their revenue through higher rates.[16]

2.1 The impact of interstate variation in ATF pricing

The practical, on ground impact of this variation is substantial. An airline which refuels at an airport in a state imposing 25 to 29 per cent VAT faces a materially higher tax burden than an airline purchasing the same amount of fuel in a state with 1,4, or 5 per cent VAT. The official rate structure can give us a glimpse of the actual situation; Tamil Nadu and Delhi have historically imposed significantly higher rates[17], whereas Gujarat, Uttar Pradesh, AndhraPradesh and most north eastern states have usually adopted lower VAT rates on ATF.[18] As a result, Tax policy influences where airlines refuel, how their routes and hubs are selected and what may be commercially attractive. This variation also encourages and directly impacts the practice of 'fuel tankering' through which airlines carry additional fuel from states imposing

[12] Ministry of Civil Aviation, Lok Sabha Unstarred Question No. 4474 (2026), [https://sansad.in/getFile/loksabhaquestions/annex/187/AU4474_mRZp4S.pdf?source=pqals] (last visited Aug 6, 2026)
[13] INDIA CONST. art. 246A, amended by Constitution (One Hundred and First Amendment) Act, 2016.
[14] INDIA CONST. art. 279A, § 1, amended by Constitution (One Hundred and First Amendment) Act, 2016.
[15] INDIA CONST. art. 279A, § 5, amended by Constitution (One Hundred and First Amendment) Act, 2016.
[16] Sacchidananda Mukherjee, Inter-Governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India, 5(1) J. DEV. POL'Y & PRAC. 74 (2020).
[17] Ministry of Civil Aviation, Lok Sabha Unstarred Question No. 1423 (2022), [https://sansad.in/getFile/loksabhaquestions/annex/1710/AU1423.pdf?source=pqals] (last visited Aug 6, 2026)
[18] Ministry of Finance, Lok Sabha Starred Question No. 265 (2021), [https://sansad.in/getFile/loksabhaquestions/annex/175/AS265.pdf?source=pqals] (last visited Aug 6, 2026)

lower tax, increasing the operational weight of the aircraft and reducing operational efficiency.[19]

The current arrangement also produces the practice of competitive distortion. Airlines operating similar routes may face extremely disproportionate input costs depending upon the location of refuelling.[20] State level concessions may attract some air traffic, while also giving rise to tax competition between states, especially in similar geographic regions. This variation in price, thus, produces a constitutional and regulatory paradox; states exercising their legitimate fiscal autonomy, individually, have an impact on national air connectivity and affordability across state lines.

What legal and institutional reforms can India adopt to meet the requirement of reconciling fiscal federalism with the need for affordable, predictable and nationally coherent aviation fuel pricing?

The first and most comprehensive solution is simply to include ATF within the GST framework under Article 279(A) 5 of the Constitution. This solution would simply replace the current framework with that of a harmonized tax structure under GST, permit airlines to claim input tax credit and reduce the cascading effect in fuel costs. However, inclusion faces fierce resistance since states have historically resisted petroleum sector GST reforms due to the risk of potential revenue losses.[21]

Due to the political resistance met by the first solution, alternatives can exist in the form of an interim harmonized ATF framework. The GST Council can take steps towards recommending a model rate, or establishing a permissible VAT band, which limits extreme differences between state wise rates while maintaining and upholding fiscal autonomy. This solution remains consistent with Article 279(A) (6), which requires the GST Council to be guided by the need for a harmonized national market.

Lastly, ATF pricing should be subject to greater transparency and institutional coordination. A permanent ATF coordination committee comprising the Ministry of Civil Aviation, Ministry of Finance, Ministry of Petroleum and Natural Gas, the GST Council Secretariat, the Directorate

---

[19] Philip G. Gayle & Ying Lin, *Cost Pass-Through in Commercial Aviation: Theory and Evidence,* 59(2) ECON. INQUIRY 803 (2021).
[20] Chang Dong, Gamal Atallah & Jose Galdo, *Cost Pass-Through in the U.S. Aviation Industry,* 127 J. AIR TRANSP. MGMT. 102823 (2025).
[21] R. Sindhwani, J. Jayaram & D. Ivanov, *Meeting Economic and Social Viability Goals in Regional Airline Schemes Through Hub-and-Spoke Network Connectivity,* ANN. OPER. RES. (2024).

General of Civil Aviation and state representatives could publish comparative state-wise data on taxes, base prices, airport charges and the final ATF burden. Such transparency would enable evidence based decisions and prevent temporary concessions from becoming inconsistent or opaque regulatory practices. The objective should be a nationally coherent system that makes fuel costs predictable, protects state revenues, preserves airline competition and supports inclusive air connectivity.

Conclusion

India's ATF pricing regime demonstrates the difficulty of reconciling state fiscal autonomy with the requirements of a nationally integrated aviation sector. The continued exclusion of ATF from GST has preserved Union and state revenue interests, but has also produced interstate tax variation, cascading costs and uncertainty for airlines and passengers. This article proposes that ATF should ultimately be brought within a harmonised GST framework, supported by an appropriate rate, input-tax credit and transitional revenue-compensation mechanism for states. Pending that reform, the Union and states should adopt a coordinated VAT band, transparent state-wise pricing disclosures and targeted concessions for regional connectivity routes. The proposed ATF price stabilisation mechanism should remain temporary, audited and competitively neutral, rather than becoming a substitute for structural reform. These measures would preserve fiscal federalism while making aviation fuel more affordable, predictable and consistent with India's long term objective of inclusive, accessible and nationally coherent air connectivity.

Bibliography

1. K. Chandrashekhar Iyer & Nivea Thomas, *An Econometric Analysis of Domestic Air Traffic Demand in Regional Airports: Evidence from India*, 93 J. AIR TRANSP. MGMT. 102046 (2021).

2. Chayanika Senapati, Nripendra Narayan Sarma & Smritishikha Choudhury, *Envisioning Turnaround in Indian Aviation—The Case of Jet* Airways, EMERGING ECON. CASES J. (2025).

3. S. Kar, *Cross-Hedging Aviation Fuel Price Exposures with Commodity Futures: Evidence from the Indian Aviation Industry*, IIMB MGMT. REV. (2021).

4. R. Sindhwani, J. Jayaram & D. Ivanov, *Meeting Economic and Social Viability Goals in Regional Airline Schemes Through Hub-and-Spoke Network Connectivity*, ANN. OPER. RES. (2024).

5. Constitution (One Hundred and First Amendment) Act, 2016, No. 16, Acts of Parliament, 2016 (India).

6. INDIA CONST. art. 279A, § 5, amended by Constitution (One Hundred and First Amendment) Act, 2016.

7. K. J. Joseph & L. Anitha Kumary, *India's GST Paradigm and the Trajectory of Fiscal Federalism: An Analysis with Special Reference to Kerala*, 71 INDIAN ECON. J. 185 (2023).

8. Ajitesh Kir, *India's Goods and Services Tax: A Unique Experiment in Cooperative Federalism and a Constitutional Crisis in Waiting*, 69 CAN. TAX J. 391 (2021).

9. J. Haran & S. Ojha, *Petroleum Products Under GST: A Trade-Off Between Government Revenue and Consumer's Welfare*, 56(7) MGMT. ACCT. J. 37 (2021).

10. *Inclusion of Petroleum Products Under GST: An Analysis of Revenue Impact to Central & State Governments,* 8(1) VISION J. INDIAN TAX'N (2021).

11. Sacchidananda Mukherjee, *Inter-Governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India*, 5(1) J. DEV. POL'Y & PRAC. 74 (2020).

12. Ministry of Civil Aviation, Lok Sabha Unstarred Question No. 4474 (2026), [https://sansad.in/getFile/loksabhaquestions/annex/187/AU4474_mRZp4S.pdf?source=pqals] (last visited Aug 6, 2026)

13. INDIA CONST. art. 246A, amended by Constitution (One Hundred and First

Amendment) Act, 2016.

14. INDIA CONST. art. 279A, § 1, amended by Constitution (One Hundred and First Amendment) Act, 2016.

15. INDIA CONST. art. 279A, § 5, amended by Constitution (One Hundred and First Amendment) Act, 2016.

16. Sacchidananda Mukherjee, *Inter-Governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India*, 5(1) J. DEV. POL'Y & PRAC. 74 (2020).

17. Ministry of Civil Aviation, Lok Sabha Unstarred Question No. 1423 (2022), [https://sansad.in/getFile/loksabhaquestions/annex/1710/AU1423.pdf?source=pqals] (last visited Aug 6, 2026)

18. Ministry of Finance, Lok Sabha Starred Question No. 265 (2021), [https://sansad.in/getFile/loksabhaquestions/annex/175/AS265.pdf?source=pqals] (last visited Aug 6, 2026)

19. Philip G. Gayle & Ying Lin, *Cost Pass-Through in Commercial Aviation: Theory and Evidence*, 59(2) ECON. INQUIRY 803 (2021).

20. Chang Dong, Gamal Atallah & Jose Galdo, *Cost Pass-Through in the U.S. Aviation Industry*, 127 J. AIR TRANSP. MGMT. 102823 (2025).

21. R. Sindhwani, J. Jayaram & D. Ivanov, *Meeting Economic and Social Viability Goals in Regional Airline Schemes Through Hub-and-Spoke Network Connectivity*, ANN. OPER. RES. (2024).