



Jet Fuel Pricing

IATA advocates the use of industry accepted principles on jet fuel pricing to promote efficiency, transparency and competition in the jet fuel market

Situation

Fuel is one of airlines' largest expenses and has a significant impact on the viability of airline operations. Unfortunately, jet fuel costs are unnecessarily higher when governments or state-owned entities set prices that are not based on free market dynamics or accepted best practices.

The industry relies on independent price reporting agencies (PRAs) to communicate assessments of jet fuel prices based on supply and demand fundamentals. PRA price assessments offer a level playing field to market participants by preventing arbitrary pricing from finding its way into commodity prices. However, several countries continue to set prices with no reference to price assessments from PRAs, thereby creating economic and operational distortions locally.

The resulting high jet fuel prices have proven to be counterproductive to states' economic development by hindering aviation growth and industry profitability, and ultimately driving down revenues for all stakeholders of the supply chain, including government owned facilities.

There is a critical need for states that have not already done so to institute market-based pricing and best practice pricing principles in order to avoid the negative effects of opaque pricing policies.

IATA position

IATA strongly supports market based pricing at airports across the world with emphasis on the following principles:

- ◆ The pricing methodology should follow assessments from recognized PRAs plus additional costs of supply which should be transparently disclosed.
- ◆ Hence, the price build-up should be the result of a transparent formula made up of three main components:
 - Price assessment from a PRA
 - Transportation / Supply Logistics costs
 - Supplier's Differential
- ◆ The market-based formula price should refer to quotations best suited for the specific regional

coverage (e.g. Arab Gulf quotations in Africa, Singapore quotations in Asia Pacific)

- ◆ Jet fuel for international operations should be exempt from any form of taxation as per Article 24 of the Convention on International Civil Aviation, 1944 (Chicago Convention), ICAO's Policies on Taxes in the Field of International Air Transport (Doc 8632) and as detailed in Article 13 of the ICAO template Air Services Agreement (ASA) which has become a standard provision in bilateral ASAs.

Key reasons for governments to apply industry best practices in jet fuel pricing

- ◆ Promote a favorable operating cost environment for airlines that will encourage them to develop their network and increase the country's air connectivity
- ◆ Ensure there are no market distortions vis-a-vis competitive locations caused by abnormally high jet fuel prices which lead to high fuel cost and an adverse impact on aviation growth.
- ◆ Maximize the country's economic development derived through aviation given that aviation is a critical catalyst for economic expansion, generating greater economic activity, jobs and income for the population and the country
- ◆ Allow home carriers to compete internationally on a level playing field.