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MCX to launch jet-fuel futures as prices soar

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There's good news for both domestic airlines beleaguered by burgeoning jet-fuel bills as well as passengers forced to pay a disproportionately higher fuel surcharge on their air tickets. In a move that would offer carriers a way to hedge more effectively against spiralling prices, the Multi Commodity Exchange of India (MCX) will launch aviation turbine fuel (ATF) futures in the country soon.

Permission by commodity market regulator Forward Markets Commission to operate such a platform will allow carriers to hedge their fuel-price risk on a domestic commodity exchange rather than an overseas one, as they do at present. MCX has said it would launch futures trading once it finalises a contract for jet-fuel. The green signal came on the same day that ATF prices rose again on Thursday.

SpiceJet hedges 10% of its jet-fuel consumption on the Sing Kero exchange in Singapore. But airlines are currently allowed to hedge only a part of their fuel needs on overseas exchanges. Domestic jet-fuel futures trading will allow airlines like SpiceJet and others to significantly increase the amount of ATF that they hedge.

ATF prices in India are now 50% higher than international prices, making them among the highest in the world. Fuel constitutes the highest component of an airline's operational cost, at about 40-45%. This means a 10% increase in fuel prices would push up costs by at least 4%.

In May 2007, the fuel surcharge stood at Rs 750, resulting in an air ticket for a trip from Delhi to Bombay at a base fare of Rs 500 to cost just Rs 1,250. Now, a year later, the same ticket costs around Rs 2,850—a rise of around 130%. This is because the price of aviation turbine fuel in Delhi was Rs 37,421.94 a kilolitre in May 2007. After the latest hike, the price is Rs 58,387.92 a kilolitre—a rise of around 56%, year-on-year.

Futures trading would also help set a benchmark for ATF prices, which are at present arrived at after negotiations between airlines and oil marketing companies. Aviation industry sources said carriers like state-owned National Aviation Company India Ltd, Jet Airways and SpiceJet could be among the first to use the new platform. The last quarter saw the budget airline's fuel cost shoot up by 20 paise per available seat kilometre due to the rise in ATF prices.