



# AVIATION HAS COME A LONG WAY IN THE PAST 15 YEARS, BUT MANY CHALLENGES REMAIN

News / Airlines



**Any way you look at it, taking a domestic flight at the turn of the century was a remarkable event in the life of an average Indian.**

One had to plan much in advance, air tickets were an expensive proposition and though private airlines had arrived on the scene, Air India continued to have a substantial hold over the domestic aviation market. How things have changed in the last decade-and-a-half can be gauged by the fact that close to two lakh Indians take a flight to somewhere in the country everyday now. There are at least seven national airlines and many more regional carriers. Air traffic within India has grown five-fold in the past 15 years — international traffic, cargo movements have also increased substantially. The seven national airlines offer fliers a choice of service models and ticket prices now. And Air India's virtual monopoly over the Indian skies is a thing of the past with the airline not even accounting for a fifth of the total passengers flown now.

But the more things change, the more they stay the same. Right at the beginning of the 21st

century, there was much debate about the divestment of the government's stake in state-owned Air India with global players like Singapore Airlines, Emirates, Hindujas, British Airways and Qantas vying with each other to take a piece of Air India. But the entire process was eventually scrapped and 15 years down the line, the airline continues to be state-owned.

And the discussion over divestment continues.

In the intervening years, the erstwhile separate airlines — Indian and Air India — were merged into a single entity in 2007 and what we now know as Air India was born. To disastrous consequences. The airline went from a profit making entity to a loss making behemoth in which the government continues to pour public money even as the market has expanded with more efficient private airlines coming in.

In the last 15 years, a lot has happened to India's civil aviation sector. In 2000-01, only about 14 million Indians flew on a domestic flight. This increased by more than three-fold to over 45 million domestic passengers in 2009-10. And in the 11 months of 2015 (January-November) the number of domestic passengers was already well above the 73 million mark. In other words, there has been over 60 percent growth in the last five years and a five-fold increase in a decade-and-a-half. This sort of explosive growth in domestic air traffic has come about due to a slow-but-steady opening up of the Indian skies, creation of aviation infrastructure — though it remains inadequate even now for future growth projections — and some change in the babudom's mindset about treating aviation as a "luxury".

Representational image. Air India

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Representational image. Air India

In the year 2000, the biggest development in the Indian aviation space, as we have mentioned earlier, was a decision by the Union Cabinet to offload 60 percent of the government's equity in international carrier Air India (not the domestic arm which was then known as Indian Airlines) to strategic and domestic investors and employees of the airline. This would have helped the Atal Bihari Vajpayee government in realising its revenue targets for the fiscal besides decreasing its own involvement in the aviation sector.

Of the 60 percent equity on offer, 40 percent in AI was to be offered to a strategic partner — this saw a host of international names and serious bidders line up for the Air India pie. At that time, the popular wisdom was that AI needed to be given away into professional and qualified hands for securing its future. All but one bidder reached the final stage of qualification — a consortium

comprising the Tatas and Singapore Airlines. But intense opposition to the privatisation of Air India by political parties and trade unions, and the fact that the 11 September, 2001 attacks ensured that SIA pulled out in 2001. And the divestment of Air India was put on the back burner for good. This has had unintended consequences for the sector as a whole — the most significant impact of government's refusal to divest AI has been on industry losses.

It is not surprising that Air India accounts for the biggest chunk of Indian airlines' combined losses.

A lot of aviation watchers believe the UPA government and its civil aviation minister for most of its decade-long tenure, Praful Patel, should be mentioned in the context of liberalising the Indian skies and creation of world-class airport infrastructure. These people forget that the seeds for much of this progress were sown under the Vajpayee regime. This was a time when India used to follow what we now know as a "limited" open skies policy during winters. But the opening of the skies to foreign and private domestic airlines and the liberalisation of the entire aviation sector were the highlights of 2003 when a revolutionary Civil Aviation Policy was introduced to enhance competition and make flying easier and cheaper.

It was in 2004 that private domestic airlines were, for the first time, allowed to fly to Saarc countries, including Pakistan. In effect, the government decision meant that passengers now had the option of flying with Air Deccan, Air Sahara or Jet Airways instead of only Air India into Sri Lanka, Bangladesh, Nepal, the Maldives, Pakistan and Bhutan. Also airlines from Saarc and the Asean nations were provided greater access to Indian destinations. This was path-breaking as it shaped Indian outbound traffic for years to come. The path-breaking offer to the airlines of the Asean nations to fly into six Indian metros and 18 major tourist destinations without any restriction was made by Vajpayee at the India-Asean summit in Bali, Indonesia.

With the arrival of the UPA in 2004, the aviation industry saw another round of liberalisation.

By 2003-04, India saw the arrival of the low-cost carrier (LCC) phenomenon when Air Deccan took to the skies with fares half those of full-service carriers (FSC). The Indian traveller was used to the Maharaja-style of doing things, later trying out the famous Jet Airways' hospitality. The no-frills Air Deccan was an entirely different experience, made even more exciting when the airline later launched dirt cheap "one-rupee" fares to increase aircraft loads. Meanwhile, other LCCs also began arriving on the scene lead by SpiceJet in 2005 and IndiGo came the following year.

During the first decade of this century, not only were Indian skies opening up and new airlines taking wings, even infrastructure development had begun to get kick-started. The government realised that the Airports Authority of India (AAI) did not have the required bandwidth to modernise and upgrade some of the larger airports, especially in Delhi and Mumbai, without help from private parties. So this on-again-off-again process resulted in concessions of the two airports being finally granted to private consortia in 2006.

Though concerns remain over the contours of the concession awarded at that time and also over how these private developers have tried to charge passengers instead of investing required amounts themselves, no one can deny that both cities now boast world-class airports. Hyderabad, Bengaluru and Kochi were later also developed through the same model. Aviation infrastructure development must now get another push since India is poised to be the third largest aviation market in another decade.

Then, Patel also did the aviation industry a service by identifying source countries for air service bilateral agreements. An ASA defines how many seats/flights airlines of two signatory countries can offer. India inked one with the UK which allowed airlines of both countries to increase services.

Also, along came the landmark air services agreement with Dubai followed by other Gulf nations which altered the course of the aviation industry since the Dubai-based Emirates got seat entitlements that gradually allowed it to corner one of the largest chunks of outbound air traffic from India.

In its last few months, the UPA lifted Air India's right of first refusal over foreign flying rights, ushered in some reforms in the regulatory mechanism and finally eased the total ban on foreign airline investment into Indian carriers by allowing up to 49 percent investment. This is when the Tatas re-entered the aviation business by launching not one but two airlines in India with different partners.

Today, India is one of the fastest growing aviation markets in the world but lack of policy support for the last few years coupled with increased competition in the Indian skies has made operators in the industry wary of their future. The fast pace of reforms, opening up the skies and other initiatives which marked the first decade-and-a-half of India's aviation trajectory have been missing since the NDA government came to power. This is best illustrated by some stats: Industry losses are expected to be \$500-550 million for the year ending March 2016, which means a daily loss of close to \$1.4 million by all airlines combined. How will a large aviation market sustain itself if a majority of the players continue to bleed, either due to legacy issues (which is a major factor in Air India's continued bleeding) or due to a lack of fiscal incentives? [Kingfisher Airlines](#) went down in 2012, unable to sustain a skewed revenue model but also partly due to the high-cost operating environment that prevailed in the country and continues to prevail even now. Last year, SpiceJet was on the brink of closure again due to severe cash problems but was resurrected by timely government intervention and after erstwhile promoter Ajay Singh agreed to back the airline once again.

Why the government continues to be reluctant to help airlines can be easily understood by a simple truism: India has seen flying as a luxury, never really coming around to the point of view that today flying has become a necessity. Well over a crore Indians take a train to their destinations each day when a mere 1.8-2 lakh are flying on the domestic network. This state of affairs is at least partly due to the heavy Central and state taxation that is levied on jet fuel — in fact, India is one of those countries which taxes jet fuel the highest in the world. Successive governments have been promising airlines a way out of this taxed-to-death Aviation Turbine Fuel conundrum but none has succeeded in persuading states to lower taxation. ATF accounts for about 40 percent of an airline's operational costs. Recently, the AAP government in Delhi in fact hiked VAT to 25 percent. Remember, Delhi has the country's busiest airport and airlines will have no option left but to lift expensive fuel from the Capital.

State governments throw up their hands often in this matter, saying they will lose revenue if ATF taxation is brought down. In the end, airlines continue to pile losses despite a good business environment — the only exceptions to this being IndiGo and GoAir.

In 2015, three new airlines took to the skies, one returned after a near-collapse at the beginning of the year and continues to improve performance. The country's most profitable airline IndiGo went public, prompting a re-rating of the entire aviation sector and India cleared two safety hurdles — it again securing top safety ranking from the US safety regulator FAA after remaining in the doldrums for months, and has just recently also passed the audit conducted by the International Civil Aviation Organisation (ICAO).

Vistara, which marked the Tatas' return to the aviation sector after earlier aborted attempts, took to the skies in January 2015. A joint venture between Tata Sons (51 percent) and Singapore Airlines (49 percent), Vistara was the second investment by the Tatas in aviation — Tata Sons had, some

months earlier, also announced a three way joint venture for AirAsia India. Vistara's launch was a milestone for not only the Tatas but also because it came as a full-service carrier, together with all the bells and whistles in a market increasingly dominated by no-frills airlines. And because it was the first major investment by a foreign airline in an Indian one, barring AirAsia. Almost one year down the line, Vistara has carried a million Indians already even as it continues to expand its fleet.

There is much potential in the Indian civil aviation market but it needs the right impetus, policy support and environment to grow. It now urgently needs a third wave of reforms. The much awaited Civil Aviation Policy could offer some solace to industry woes, It is now expected to be unveiled next month. Besides suggesting a framework for enhanced connectivity in India's hinterland, it is also expected to take a call on other detrimental rules such as the 5/20. This rule has defined India's aviation growth along with a total ban on foreign airlines investing in Indian carriers (which was lifted in 2012). This rule bars an Indian airline from flying overseas till it has completed five years of domestic flying and has a fleet of at least 20 aircraft. Brought in at the behest of a large private carrier, any continuation of this rule along with the taxed-to-death ATF, will surely sound the death knell for airlines wanting to expand in Indian market. Though incumbents IndiGo, SpiceJet, GoAir and Air India have complied with this restriction in the past, new airlines Vistara and AirAsia India will obviously stand to lose if the 5/20 rule stays — since their expansion depends largely on seamless connectivity with the foreign partner and ambitious growth in overseas operations.

The Civil Aviation Policy is widely expected to also recommend that all airlines not only participate in the ambitious regional connectivity scheme but also increase domestic connectivity otherwise. Again, this may stem from the need to get more remote locations on the country's aviation map but the move is fraught with litigation and opposition from airlines since they already deploy a certain specified capacity on non-viable domestic routes.

Another unwelcome move: Fliers will have to shell out more from next year as the policy also proposes an additional two percent levy on all tickets to fund regional connectivity.

Then, although the policy speaks of enhanced regional connectivity, it has no firm plans for augmenting airport and other related infrastructure to support regional flying. Through 2015, the government went back and forth on earlier moves to privatise four airports at Kolkata, Chennai, Jaipur and Ahmedabad. The proposal was finally scrapped. And now, an ambitious plan to give out Jaipur and Ahmedabad airports to Singapore's Changi for operation and management is also mired in controversies.

Then, an earlier decision to sell stakes in the AAI and Pawan Hans Ltd was also reversed. How aviation growth will be supported without adequate infrastructure creation, keeping private developers out and overloading AAI remains to be seen. If India does manage to draft a sensible Civil Aviation Policy with initiatives for short, medium and long-term growth of the sector, the country's aviation journey may not see as many air pockets as in the past.

But for the sector to grow to its full potential, it needs hand-holding by the policy makers.

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