



**International Foundation for Aviation, Aerospace & Development
(India Chapter)**

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RECORD OF THE PROCEEDINGS OF SEMINAR ON “REGIONAL AVIATION” HELD ON THURSDAY, 24TH JULY, 2014 FROM 2.30 TO 5.00 P.M. AT SEMINAR HALL NO.2, KAMLA DEVI BLOCK, NEW BUILDING, INDIA INTERNATIONAL CENTRE, 40, MAX MUELLER MARG, LODHI ESTATE, NEW DELHI 110003

The Following attending: -

| S. No. | Name | Designation/Organization |
|--------|------------------------------|---|
| 1. | Ms. Diana Mickeviciene | Minister Counsellor, Embassy of Republic of Lithuania |
| 2. | Wing CMDR Rajinder Chaudhary | Managing Director & CEO, Sues India, Raja, Lithuania |
| 3. | Mr. Harsh Malhotra | COO, ILFS |
| 4. | Prof. Dr. K.C. Gandhi | Centre for Aviation Studies, University of Petroleum & Energy Studies |
| 5. | CMDR Mohan Kanuga | Bhartiya Janta Party Industry Cell |
| 6. | Mr. Aneesh Phadnis | Special Correspondent, Business Standard. |
| 7. | Ms. Loreta Malinauskiene | IOS Meredon |
| 8. | Mr. Andre van Amerongen | IOS Meredon |
| 9. | Air CMDR B.S. Siwach | Aviation Safety & Managing Society of India |
| 10. | Mr. Amit Mittal | Regional Representative, Asia, Tempus |
| 11. | Prof. D.B. Gupta | NCAER |
| 12. | Mr. Naresh Pande | Indo-European Affair |
| 13. | Mr. Suresh Nair | Air Asia |
| 14. | Ms. Swashwati Ghosh | Yes Bank |
| 15. | Mr. Satish Girotra | M-Sethia Group, London |
| 16. | Ms. Ranjana Kaul | Partner, Dua Associates |
| 17. | Mr. Hari Singh Rao | Humber College, Toronto, Canada |
| 18. | Ms. Nilam Mathews | Aviation Journalist |
| 19. | Mr. Satendra Singh | Former DGCA & Secretary General, IFFAAD |
| 20. | Dr. Sanat Kaul | Former Representative of India to ICAO and Chairman, IFFAAD |

The Seminar started with the introduction by Chairman who stated that India has now reached a level of development where Regional Aviation can play a major role and in this connection, he stated that there is a need now to build regional aviation infrastructure. He further stated that India is lucky to have 447 airports on book even though many of them are non-functional but can be revived. The government has already declared its intention to encourage a regional airport development and regional aviation. The Finance Minister in his budget speech in the month of June, 2014 stated specifically that regional airports would be developed either by Airports Authority of India or through the method of Public Private Partnership (PPP).

He further stated that in order to encourage Regional Aviation, the issues of viability of both airports and airlines have to be taken up in earnest. This can be done through creation of a non-lapsable fund as suggested by Naresh Chandra Committee for Essential Air Services Fund (EASF) or by Regional Air Connectivity Fund (RACF) as suggested in their report by Deloitte Touche Dohmatsu India Pvt. Ltd. to promote both regional as well as remote areas.

The overall tax paid to government revenues both state and central need to be studied. The cartelization of ATF and the high taxation on ATF also needs to be studied. As barely 2% of Indians travel by air and over 70% of the traffic is between metro cities, there is a need to diversify the base and spread commercial aviation to Tier 2 and 3 towns. There is also a need to think in terms of developing aerotropolis by which remote areas can be developed for both industry and tourism purposes. With this, both the regional airports and airlines servicing the airport can become viable.

The need for low cost structures is important. Low cost airports are the need of the day and only they can meet the requirement of Regional Aviation. While government subsidies can be always be considered, the need for widening innovation solutions is also essential.

In our seminar today, we have representative of IOS Meredon, a company based in Lithuania and Netherlands who have developed low cost solutions to passenger and cargo handling, a much-needed requirement for low cost airports/airlines and for viability of regional aviation. We also have Mr. Harsh Malhotra, COO, ILFS airports, Mr. Ricky Surie of CD Aviation and Professor D.B. Gupta of NCAER. We will start with IOS Meredon presentation.

PRESENTATION BY IOS MEREDON

Mr. Andre van Amerongen and Ms. Loreta Malinauskiene, who came all the way from Netherlands and Lithuania, will speak on low cost solutions to regional airports for handling passenger and cargo.

In their presentation they stated that in the last decade aviation is changing rapidly by the fast grow of Low Cost Carriers. LCC's create high volume passengers-flows, low ticket-prices, short rotation time as 25 min. LCC's are frequently changing their business model to improve the cash-flow by charging money for ancillary services, seating, baggage, etc.

Current aviation IT-systems are legacy systems of the last 5 decades, expensive and slow in adapting new Technics or operate more efficient.

In cooperation between a Lithuania and Dutch IT company they have developed from scratch an overall aviation IT-system, build with latest IT-Technics to improve efficiency and reduce overhead.

As a clear web-application nothing has to be installed at local PC's, maintenance, updates are done remote with zero downtime.

IOS Meredon process real-time automatically all information as messaging, load sheets, pax-manifest, FDIS, etc. etc. and is in full connectivity to SITA or existing systems as IATCI and E-boarders control.

This way passengers can check in at all check-in-desk neither depending on carrier nor destination. By swiping the passenger's passport the correct flight are PNR is instantly "loaded". This improves handling time dramatically to 90-150 per desk/hr. and reduces mistakes.

The IT-landscape we have developed for IOS Meredon is to compare as an OPEN-CUTE system. CUTE or CUPPS can operate in a co-existence local network although passengers and aircraft handled by IOS will avoid CUTE/CUPPS totally. The CUTE-fee will become a non-technical issue what cannot be created by CUTE anymore.

At fast growing or renewed airports, it is interesting to implement new structure and procedures. We hope that we can support these developments in India with IOS Meredon.

PRESENTATION BY ILFS AIRPORTS

Mr. Harsh Malhotra, COO, ILFS then spoke on the issues of Regional Aviation. In his presentation, he stated that the Indian Civil Aviation sector has seen dramatic growth and huge potential waiting to be exploited aided by liberalisation permitting entry of private airlines.

This represents tremendous opportunity for private sector investment in airport development more so in regional airport development as is seen in telecom sector growth in what are called Tier II and Tier III cities

Like any other country majority of traffic is concentrated in few large metro airports for obvious reasons – size of economy, population, economic activity etc. However, this cannot continue forever and more development will need to take place in Tier II and Tier III cities to even support the growth of traffic at Tier II and Tier III cities would need to feed the outbound traffic

Still there is huge requirement, which will be met mainly from private sector as AAI does not have the required investment. Eighty percent of the project investment is expected from private sector over 12th Five Year Plan

Government of India is also moving in the direction of greater private sector involvement through PPP for which it has identified 15 of AAI airport to be offered on PPP basis in the first phase. There are further 32 non-operational airports identified to be offered on PPP basis but may take time after government is through with first 15

Process for six of these was initiated by previous government however due to paucity of time it could not be completed. In addition, there are six Greenfield airports are in the pipeline–Navi Mumbai expected any time now and process for Goa is expected to be initiated in September 2014 as per press reports.

All the right triggers are available for growth of airport sector. Need of the hour is to harness these growth triggers for there is need for partnership among private players and government at Centre and State level to turn potential into reality

Even there is nothing-substantial happening on Greenfield airport - both large and small. DGCA had accorded approval for 15 airports few years back but most of the airports have failed to take off because of various reasons including viability. Only four out of these 15 airports are making progress towards operations

Challenges facing the smaller airports are well known. However, profitability remains a key challenge for host of reasons listed here. Only two out of 7 AAI profitable. Out of these two are civil enclaves – Pune and Goa and Juhu airport is mainly used for helicopter operations. Nanded airport owned by a private players is running annual loss of Rs.5 crores due to high cost of operation and low level of scheduled airline activity. Even one flight, which used to operate, has also stopped.

Two primary reasons are high cost of operation and very low level of non-aero revenue at smaller airports. Capital intensive nature of airport requires high level of airline operation to sustain it hence obtaining long term bank financing is a challenge.

State government have been offering surplus land to support viability. However, banks treat smaller airport as a real estate play due to over dependence on real estate monetisation, which reduces the tenor of the debt.

Based on experience of many of private and AAI airports it is clear that airlines need to be taken on board before embarking on airport development to avoid investment turning dead

As per international norms for an airport to breakeven, it needs to reach passenger traffic of at least 0.7 mn, which will take few years for new airports to achieve

Analysis of five regional airports with more than one million passengers shows that these are served mainly by A 320s and larger aircrafts. For these aircrafts to serve an airport, PLF required by airline would be at least 70%. The procurement plan announced by scheduled airlines is also for A320 type of aircraft, which means their target airport would not be smaller airports

Current fleet of scheduled airlines is less than 2.5% aircraft with less than 50 seat aircrafts. However, among these problems there is an opportunity if we look at NSOP and their aircraft profile. These aircrafts especially with up to 20 seats would perfectly match the requirements of smaller airports. In fact, 82% of the aircrafts fall into this category. To attract passenger it is necessary to ensure that services once started would continue

Only way to overcome this is reduce the capital and operating cost and get support from Governments at Centre and State to achieve it. For starting a route to new airport airlines also, expect a subsidy / underwriting of few seats which regional airports would not be able to do for scheduled airlines having large airports. Operation of smaller aircrafts (up to 20 seats) would also make it feasible for state government to underwrite few seats.

There is need to for sustained efforts to highlight role of air transport as GDP accretive as demonstrated by study of Delhi Airport by NCAER. State and Central Government support is required more on reducing the operational expenditure especially for mandatory security, air traffic monitoring, land lease rental, fire and rescue operation, and reduction of tax on ATF etc.

Central government can also act on recommendation made by various committees in the past such as Regional Air Connectivity Fund, removing distinction between SOP and NSOP, allowing code sharing among AOC (small) and AOC (large) so that hub and spoke model is development.

PRESENTATION BY CD AVIATION

Mr. Ricky Surie, President CD Aviation, USA stated that while India has plans to build 200 low cost airports to connect Tier 2 and Tier 3 cities, it has a

long way to go. He pointed out that US Congress has issued a report detailing National Plan of Airport Systems (NPIAS) 2013-17 by FAA in which a total of 90786 facilities have been listed as currently in use of which 14615 (74%) are private use facilities while balance 26% are public use facilities. He further stated that in order to build up the same kind of regional aviation infrastructure in India, we need to look into issues of regional aviation management, which will involve a lot of government facilitation and subsidy. He further gave examples of Madhya Pradesh and Karnataka governments under riding seats and Department of North East Region (DONOR) providing Rs.50 Crores subsidy. He mentioned about Chakulia Airport, which is being developed in Bihar by his company.

PRESENTATION BY PROFESSOR D.B. GUPTA (IFFAAD)

The last presentation was made by Professor D.B. Gupta of National Council of Applied Economic Research (NCAER) and a member of IFFAAD. Professor Gupta stated that IFFAAD is interested in making study of impact of regional aviation on economic growth of remote area. In this connection, he stated that IFFAAD has been sanctioned a Research Project by the Indian Council for Social Science Research to study the Impact of Aviation on Social and Economic Growth. For this purpose, they have chosen Andaman & Nicobar Islands for the study, which will be conducted in the next 18 months. The study will be conducted in collaboration with Institute for Human Development, New Delhi.

In the end, Dr. Sanat Kaul, Chairman, IFFAAD thanked all present and specifically the participants for a very interesting seminar.