FLYING FORWARD?

The current state of aviation in India is attracting more debate than ever before, thanks to the recent developments where one airline company is on the verge of closing down while others are struggling to survive. Where do we go from here, discusses Sanat Kaul, Chairman of International Foundation for Aviation, Aerospace and Development (India Chapter)

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It is indeed an odd story for India. A couple of years back the airlines of India were growing at double digit but incurring losses. Now, the growth is nil or low but they have started making profits. While many western airlines and airports are not doing well, airports and airlines in our neighbourhood like the Gulf countries or Singapore are making profits. What is the reason behind it?

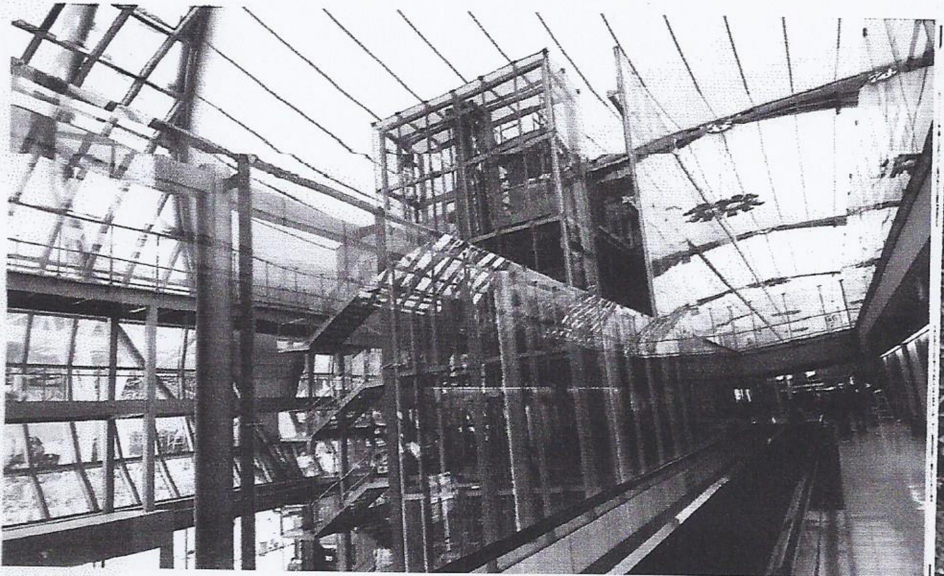
While India is a growing economy with GDP growth currently at a low of about 5.5%, it is also a very price sensitive economy. Also the growth in aviation in India has taken place through a new breed of travellers who pay for the ticket out of their own pockets unlike earlier when majority travelled on company or government account. As a result the old model of full service airline, which made its profit from business class tickets, is no more valid in India. More than 70 per cent of the tickets sold are with low cost airlines which cut costs; provide little service; but offer cheap tickets with on-time performance. Even the full service airlines are now reducing drastically its business class and opening subsidiaries as low-cost versions. Overcapacity in the sector led to unhealthy

competition with tickets being sold below operating costs leading to losses. With suspension of Kingfisher Airlines, there was a contraction of capacity and ticket prices stated to rise again.

Another anomaly in the country is the high cost of domestic travel due to high pricing of Aviation Turbine Fuel (ATF) by cartelised oil public sector companies. The Express Industry Council of India, including names like Gati and FedEx, has even written to the Competition Commission of India to look into these aspects. Reaction of Competition Commission is not known as yet. As a result of high fuel prices, airlines of India have started putting a fuel surcharge since 2008 on the ticket. However the basis of this surcharge is not clear and it does not follow the fluctuations in ATF prices. In addition to the policies followed by oil companies and airlines on fuel prices and surcharges, state governments are putting their own sales tax on ATF without any uniformity with some states charging nearly 30 per cent. The move to declare ATF as a 'Declared Good', which will cap the sales tax to four per cent has not quite taken off as consent of some states is not forthcoming. It is unfortunate that some state governments have a very short-sighted view of their own potential revenue streams. If state sales tax is reduced across the board then its impact on lowering of ticket prices will be felt in the economy and will lead to greater sale of tickets, profits for airlines and tax revenue for the state governments.

As a result we see airlines of India preferring to increase the foreign flights where these conditions do not exist (fuel is cheaper and there is no sales tax or customs duty). For the same reason, Indians also find that flying abroad in the neighbouring countries for a holiday cheaper than taking a holiday within the country due to high airfares.

Coming to airports, the story is the same. Delhi and Mumbai have been privatised through lease with 46 per cent of revenue of Delhi International Airport Limited (DIAL) and 38 per cent of Mumbai Interntaional Airport Limited (MIAL), the two airport companies, coming into government coffers every month. While the new airports are of high standard and popular, such high percentage of revenue share agreed by the winning consortia makes the airports economically unviable leading to high aeronautical charges being levied by them. In case of Delhi, the concession agreement stated that while government share in equity will be 26 per cent, the government through Airport Authority of India will not bring in more than ₹ 500 crores as equity, which restricted the growth of equity base of the company. Such conditions are contrary to developing a healthy debt-equity ratio. DIAL was then in a dilemma as it could not increase its own equity and it could not raise more debt due to adverse debt-equity ratio. As such, it sought the ingenious way of tapping 'User Development Fee' as a viability gap funding option. Had the rate of revenue sharing been reasonable and there was no restriction on equity base, DIAL would not have asked for, nor the government would have given ADF and such high increases in aeronautical charges making Delhi one of the most expensive airports in this region. Mumbai airport story is similar except for the fact that there is no decision on a new International Airport, which Mumbai needs desperately as the current runway will reach its full capacity by 2013-14 and it does not have land for a second parallel runway.



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The issues of aviation sector are largely government related. It is unfortunate that governments, both at the centre and states, are killing the goose that lays golden eggs. If rationalisation of ATF price and Sales Tax regime is carried out in earnest, which will bring down operational costs of airlines, there is bound to be a bigger growth in the domestic sector. Similarly, there is a need to reduce airport charges to attract foreign airlines to India. If the government is under the impression that by opening the sector to 49 per cent foreign investment will solve the problem then they are mistaken. SWTI