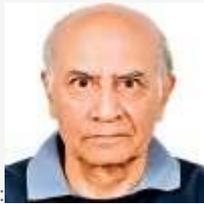


DNA

Time for hard decisions

The aviation sector, no longer a preserve of the rich, is in a financial mess that needs to be sorted



Reported By: [Sanat Kaul](#) | Source: DNA | Updated: Jun 12, 2019, 07:10 AM IST



Jet Airways

Of all the spheres of the economy at the end of NDA-1, aviation was one sector that was shining in terms of double-digit growth in passenger traffic for many years.

But that too had taken a bit of a beating towards the end, reflecting the adverse growth in the general economy. It would be instructive to remember that the aviation sector is a very high multiplier of both economic growth and employment and any downturn would impact the economy itself.

However, schemes like Regional Connectivity 2017, along with existing Group Dispersal Guidelines and the proposed International Connectivity Schemes will certainly give a fillip to the economy.

On the flip side, however, is the unfortunate decline and fall of Jet Airways, which had taken over the mantle of Air India as the country's leading airline, both domestically and internationally.

Airlines constitute the heart of the aviation sector, without which airports and other allied sectors such as ground handling and tourism cannot thrive.

After Air India's Rs 50,000 crore-plus debt, Kingfisher Airlines' over Rs 14,000 crore and Jet Airways' debt that is in excess of Rs 10,000 crore, the aviation sector appears to be in a financial mess.

While newer airlines like Indigo, GoAir, SpiceJet or Vistara will no doubt fill the vacuum and double-digit growth will soon be back, there is a need for the new government to go in for some deep introspection.

What is causing this distress? Is it only mismanagement, as in the case of Kingfisher or bad decisions and mismanagement by Jet Airways? Or is it also due to faulty government policies? The answer is not simple. There is, no doubt, mismanagement in the above three cases, but government policies have contributed to their woes.

Air India, an enigma, continues to operate on taxpayers' money. It's shooting itself in the foot by reducing its global distribution system operators, thereby slashing its catchment areas of passengers.

No serious attempt at its revival is being made either.

As far as the domestic sector is concerned, airlines work at a huge disadvantage. They are burdened with taxes and levies at one end and high Air Turbine Fuel (ATF) prices at the other. While an industry's ideal cost of ATF should not exceed over 25% of the total operating cost, in India due to oligopolistic nature of ATF supply, the domestic price is much higher than in other countries.

In addition, a central excise imposition of 14% and sales tax levied by states on ATF, can be as high as 30%. Attempts to bring ATF under GST, cutting it down to 12% has not been accepted by the GST Council.

Any deterioration of the exchange rate of rupee to the US dollar also impacts adversely on profitability. Deterioration in international fuel prices also plays a role. As a result of this toxic mix, the cost of operation in the domestic sector remains very high.

Compare this with the supply side in airline operations. With a very large order of new planes, the total capacity of seats is increasing by the month, but airlines are unable to increase ticket pricing in order to fill up the growing availability of seats. They, therefore, go for computer-based dynamic pricing, which causes passengers acute distress during holidays/festivals or calamities, when prices go through the roof.

With low-cost carriers now dominating the domestic scene, the model followed by full-service airlines is under stress.

All airlines in India send their aircraft to neighbouring countries like Sri Lanka or Thailand for mandatory inspections known as C&D check. This billion-dollar business is being thrown away along with employment potential because of bureaucratic bungling involving the ministry of finance. In the normal scheme of things, Maintenance and Repair Organisation (MRO) should have been a captive business for the Indian industry but has been allowed to slip away. This also adds to the operational cost of airlines.

As about the airports, while much work has been done, there is still a lot more to do. The Airports Authority of India (AAI) is the custodian of all civil airports in India. It is correct to say that about a dozen airports are profitable, while the rest are cross-subsidised by AAI.

Airport improvement involves not just upgrading the terminals, but also the runway, navigational aids and equipment needed for safety and security.

Slowly, the AAI is leasing out bigger airports on a long term basis.

However, the lessee company is selected on the basis of the highest percentage of revenue it can share with AAI.

The Delhi International Airport shares 46% of its revenue while Mumbai is a little less; newly-privatised airports are even higher. With such a high level of sharing, private airports charge airlines and users at higher rates, which again add to costs. Indian Airport charges are considered as one of the highest in the world by the IATA.

The new government should look at the aviation sector holistically, as a part of the economy, which is going to play a crucial role in economic development and is no more a sector for the privileged class only.

It is increasingly becoming a middle-class mode of travel and contributes to business and employment. Therefore, as a sector, there is a need to nurture it and not kill the hen that lays golden eggs, which seems to be the direction today.

These issues cannot be decided only by the ministry of civil aviation.

It needs an inter-ministerial group headed by the finance minister to sort out the mess.

Author is Chairman of International Foundation for Aviation, Aerospace and Drones