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Ministry of Civil Aviation
Government of India

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India Aviation 2014

1 Executive Summary

The Indian civil aviation industry is on a high growth trajectory, albeit with minor hiccups. India has a vision of becoming the third largest aviation market by 2020 and is expected to be the largest by 2030.

Despite facing a reduced growth rate in the past few years, the Civil Aviation Industry in India has ushered in a new era of expansion driven by factors such as Low Cost Carriers (LCC), modern airports, Foreign Direct Investments (FDI) in domestic airlines, cutting edge Information Technology (IT) interventions and a growing emphasis on regional connectivity. Simply going by the market size, the Indian civil aviation industry is amongst the top 10 in the world with a size of around USD 16 billion.

However, in order to achieve the vision of becoming the third largest aviation market by 2020, a lot more needs to be done.

The Asia Pacific region along with other emerging economies of Latin America and Eastern Europe are projected to lead the growth of the global aviation sector in the next few decades. Steady economic development of China and India would lead to higher spending power and increased need to travel. With one third of the world's population residing in these two nations, there is a huge untapped potential.

As per the 12th Five Year Plan (2012-2017), improving air connectivity in tier-2 and tier-3 cities in India is one of the key priorities of the government. This expansion will not only add a much needed boost to the industry, but also increase the viability of new trends like low cost airports and airlines in the country. With the unfortunate downgrade of India to Category 2 by USA's Federal Aviation Administration (FAA), expansion in the global routes may be constrained. That too will lead to greater focus on the domestic market in the short run. All this will have a multiplier effect in terms of higher growth of local economic activities, tourism and employment.

India sells one of the costliest Aviation Turbine Fuel (ATF) in the world, nearly 60% costlier than competing nations in the Middle East and ASEAN regions. This is thanks to myopic tax policies at the central and state level. The raw material - ATF - accounts for nearly half of the operating cost of Indian carriers. This explains why domestic flight tickets in India are often costlier than a 3 days weekend package in Thailand and Malaysia. No wonder tourism traffic in India is a fraction of its immense God-gifted potential.

The irony is that the common man in whose name high taxes are imposed on ATF, is himself prevented from flying due to high travel costs! According to a rough estimate, nearly 99.5 percent of the world's third largest economy, have NOT seen the insides of an aircraft. Most Indian carriers therefore are facing financial ruin and are hoping for a white knight to bail them out.

Some recent initiatives such as allowing import of ATF are a step in the right direction, but more proactive measures are needed in order to make the industry more competitive and investor friendly. The positive implications of allowing 49% FDI in Indian airlines are slowly becoming evident. Removal of the unwritten ban on A380s will help bring down cost of travel and increase tourist arrivals. The 5/20 rule and other regulatory hurdles in approval of new airlines and import of aircrafts need to be abolished at the earliest.

The regulatory regime governing Maintenance, Repair and Overhaul (MRO) of aircrafts is another classic case of tax and procedural overkill. Not a single commercial aircrafts of Indian carriers undergoes repairs in India. Empty aircrafts are flown to MRO facilities in our neighboring countries and paid for in foreign exchange. The loss of revenue, foreign exchange, employment and direct taxes is immense. All this is thanks to the short-sighted policies regarding indirect taxes (Service Tax and VAT) and cumbersome Customs procedures regarding import of aircraft parts and consumables.

With the growth of air traffic in the region, focused efforts to upgrade the Air Navigation Services (ANS) has become imperative. Segregation of ANS directorate from Airport Authority of India (AAI) into a world class organization with latest infrastructure and well trained professionals is key. Government is expected to decide on the matter soon.

In pursuit of becoming a strong aviation player, India perhaps did not put the right emphasis on development of human capital and regulatory frameworks. The FAA downgrade has been fallout of the same. India needs to put its act together to address these issues. The creation of a financially and operationally independent Civil Aviation Authority (CAA) and the National Aviation University (NAU) need to be undertaken on a war-footing.

There is a large untapped potential for growth in the Indian aviation industry due to the fact that access to aviation is still a dream for nearly 99.5 percent of its large population, nearly 40 percent of which is the upwardly mobile middle class. It is critical for the industry stakeholders to engage and collaborate with the policy makers to come up with efficient and rational decisions that will shape the future of Indian civil aviation industry. With the right policies and a relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third largest aviation market by 2020 and the largest by 2030.