# Civil Aviation in India: Flying Higher

## Overview:

Airports are a crucial commercial service for India. 40% of India's trade by value, and 95% of international travel to and from India, takes place through the Airports. India has more than 15 international airports, 87 domestic airports and 27 civil enclaves, as well as more than 300 small airstrips. However, only two airports, namely Delhi and Mumbai handle 70% of the passenger traffic and contribute 80% of revenue.

Praful Patel, India's civil aviation minister has declared the start of an "air travel revolution". According to the Director General of IATA, Giovanni Bisignani, "The expansion of air transport in India is among the fastest in the world." This is being reflected in the double digit growth rates of passengers and aircraft orders placed by Indian carriers. To meet this growth there is an immediate need for improvement in existing infrastructure. Modernization of 30 airports by 2009 has been proposed by the ministry and the process of raising an amount of approximately US $1.2 billion has begun.

In the next 10 years India's aviation sector is expected to see investments to the tune of US $50 billion. These will be made mainly in the form of airport infrastructure upgrade and fleet acquisition by carriers. Private sector and the government are expected to invest about US $30 billion in this sector in the next 5 years.

This makes India a very attractive market for airport and avionics equipment manufacturers and service providers. The Government of India policy to liberalize the civil aviation market also presents foreign firms with significant export and investment opportunities.

## Air Traffic:

Present Status:

- From just 5.1 million passengers in 1970, domestic and international air passenger traffic has grown to nearly 59 million passengers in 2004-05.
- International passenger traffic has grown from 16.6 million to 19.4 million and domestic traffic has grown from 32.08 million to 40.09 million from 2003-04 to 2004-05. According to an ASSOCHAM (Associated Chambers of Commerce and Industry of India) Eco Pulse Survey, international passenger traffic out of India enjoyed a 17% growth, while domestic traffic witnessed a 24% year-on-year growth.
- Growth of domestic air traffic in the first half of this fiscal year has been ranked only second to China by growth analysts.
- Cargo traffic has grown from 979,000 tonnes (646,000 tonnes of international and 333,000 tonnes of domestic) in 2002-03 to 1.06 million tonnes of cargo (693,000 tonnes, international and 3.75,000, domestic) in 2003-04.

Future Growth:

- International passenger traffic growth of 8.4% annually between 2005 and 2009. If domestic traffic is added, the figure comes close to 12%. Industry sources feel that these figures can be less because air transport grows twice GDP. Considering that the GDP growth is expected at 7.2%, air traffic growth can be expected in the range of 15%. By 2010, the forecast is that air traffic will increase to around 90 million.
- The Indian market for international freight expected to grow by nearly 10% annually over the next five years. Air cargo exports from India are expected to rise from the present 0.8 million tonnes to 2.4 million tonnes while domestic cargo will rise from 300,000 tonnes to over 1 million tonnes by 2010.

According to estimates, the present infrastructure can support a 20 per cent growth in passenger traffic and 10 per cent growth in cargo traffic. The need for improvement in infrastructure to meet these growing demands has been recognized and the Ministry of Civil Aviation estimates that there is a need for an investment of Rs. 260 – Rs. 360 billion.

## Airlines:

- The number of carriers operating in India has grown from two state-owned players in 1991 to 11 today. Another four carriers are set to start operations soon. Several low cost carriers including Deccan Air, Kingfisher Air, Go Air, Royal Airways, Air One and Indus Air have begun operating flights in the domestic sector. International airlines like Jet Star, Valueair and Tiger Airways are planning to introduce flights in 2005.
- More than 60% of the domestic aviation market is accounted by private airlines.
- With increasing popularity of air travel, airlines like Air India, Jet Airways and Indian Airlines posted profits last year.
- Investors from India and abroad are so eager in investing in this industry that Jet Airways IPO was sold out within minutes of being launched.

## Airplanes:

- To meet the growing demand, Indian carriers are placing major orders for aircrafts.
- Indian carriers placed orders over US $12 billion in this year’s Paris Air Show.
- Of the 280 aircraft order received by Airbus at the Paris Air Show, 135 are from Indian carriers. has received order for at the Paris Air Show, 135 are headed for India. Moreover, of the $50 billion that Airbus can earn from these deals, the contribution of Indian carriers is over $15 billion.
- Airbus forecasts that the number of new aircraft it would sell to Indian carriers would go up to 400 by the year 2023. This will make the India the third largest market for new aircraft in Asia, behind China (1,790) and Japan (640), according to Airbus' Global Market Forecast 2004-2023. The aviation industry is of the view that the European aircraft maker may have to again revise its projection upwards.
- Boeing expects India to buy aircraft worth $35 billion in the next 20 years.

- The Center for Asia Pacific Aviation (CAPA) estimates India's domestic airlines would need 650 new aircraft by 2012, up from the current 210.
- Every new carrier launched in the country will need to buy a minimum of five aircraft to start operations, as stipulated under the license condition, in the next 12 months.
- InterGlobe Enterprises has placed firm orders for 100 aircraft worth $6.5 billion.

| **Carrier** | **Proposed to Add** |
|---|---|
| Air India | 50 |
| Air India Express | 18 |
| Indian Airlines | 43 |
| Jet Airways | 30 |
| Air Deccan | 60 |
| Kingfisher | 48 |
| Spicejet | 20 |
| Indigo | 100 |
| GoAir | 15 |
| Magic Air (to be launched in 2006) | 10 |
| Paramount | 5 |

## Airports:

- India has a civil aviation network comprising 449 airports/airstrips.
- However, Delhi and Mumbai airports handle 70% of the passenger traffic and contribute 80% of revenue. Both the airports are facing significant capacity constraints.
- The Indian government plans to spend $20 billion over the next 5 years upgrading airports and expanding two government-owned airlines to win passengers from the regional hubs of Singapore and Dubai.
- The restructuring of the first phase of Delhi airport is expected to be completed by 2009 at a cost of Rs 1.9 billion. Expansion and upgradation of the current facility at Mumbai is already under way.
- Work has started on a new international airport at Bangalore by Siemens AG and Unique Zurich Airport at the cost of US $325.6 million.
- Apart from strengthening of the Hyderabad runway at a cost of Rs 700 million. Malaysia Airport Holdings is building a new airport in southern city of Hyderabad. The cost of this new airport is expected to be around US $320 million.
- The government has also decided to modernize 25 airports in non-metro cities. Improvement of another 55 airports is also on the anvil.
- AAI has suggested upgradation of the airports and provision of facilities such as duty-free shopping and recreational activities that would lead to growth in tourism, business travel and exports.

- The government has decided to encourage private sector investment in such activities, including shopping complexes, golf courses, entertainment parks, aero-sports, etc near airports to promote tourism.
- The state government of Maharashtra has proposed the construction of an International Multi Model Passenger and Cargo Hub (MIHAN) at Nagpur.
- India's Ministry of Civil Aviation will outline the significant new investment opportunities arising in the sector as a result of its USD8.4 billion airport upgrade plan.
- According to Praful Patel, Minister of Civil Aviation, some 400 airports would have to be developed in the long run.

## Government Policies:

- Liberalization of entitlements with UK, US, Australia and France will induce growth in the civil aviation sector.
- Indo-UK:
  - Air services between India and the UK will be more than doubled by 2006.
  - UK carriers have also been granted access to Bangalore, Hyderabad and Cochin besides the four metro destinations of Mumbai, Delhi, Chennai and Kolkata and Indian carriers will fly to Glasgow, Edinburgh and Bristol in addition to London, Manchester and Birmingham.
- India-Australia:
  - Entitlements for operations on the India-Australia sector will also be enhanced for both sides significantly from the 2100 seats per week to 6500 seats per week over the next two years.
  - Australian carriers will also get access to Chennai, Bangalore and Hyderabad.
- Indo-US:
  - Air Transport Agreement signed between India and US. This will enable Indian carriers to operate additional flights to different destinations in the US.
- Privatization is being encouraged. Private carriers are now being allowed to operate flights to all parts of the world, except the Gulf and Saudi Arabia.
- The Open Skies Policy has lifted restrictions on the number of flights and destinations that the carriers can operate.
- The Government will constitute an airport economic regulatory authority (AERA) on the pattern of the Telecom Regulatory Authority of India (TRAI). Ministry for Civil Aviation would soon approach the Cabinet with a proposal and introduce a bill in Parliament regarding this.
- FDI Policies:
  - i. Up to 74% foreign equity participation through the automatic route and up to 100% with special permission is permitted in airport infrastructure. Foreign airport authorities can also participate in such investments.
  - ii. In airports, FDI up to 100% is permitted, however beyond 74% government approval is required.
  - iii. In domestic airlines, FDI up to 49% is permitted. Also, 100% is permitted for Non-resident Indians through the automatic route.
  - iv. No direct or indirect equity participation by foreign airlines is allowed.

## Opportunities:

- With new airports and up-gradation of existing airports on the anvil opportunities exist for various organizations including those involved in airport management, terminal construction and design, passenger and cargo handling, strengthening and extension of runways, aprons, aircraft parking stands, taxiways and aerobridges.
- This growth potential, coupled with the government's decision to allow private sector participation in the running of five key airports as also in airport modernization, ground services, aircraft manufacture, makes India a very attractive market for airport and avionics equipment manufacturers and service providers.
- The Government of India policy to liberalise the civil aviation market also presents foreign firms with significant export and investment opportunities.
- Also, CAPA estimates India will need a further 3,000 pilots. There will a sharp rise in demand for trained cabin crew not only for the domestic airlines, but also for international carriers," said Sapna Gupta, chief consultant of the Air Hostess Academy. " In the entire Asia-Pacific region, the total human resource requirement in the civil aviation industry will be to the tune of 94,705."

## Problems:

In India, the industry, which has seen the arrival of more than a dozen low-budget airlines, is suffering serious growth problems, from inadequate infrastructure to struggles to meet surging demand. Delays, safety, customer satisfaction and operational headaches worry the industry. India's booming aviation business needs more airports, pilots, flight crew and less-stressed air traffic controllers.

"Delays of anywhere up to an hour have become par for the course in airports like Delhi and Mumbai," the local daily Business Standard noted. "Both these airports typically handle 25 to 28 flights an hour, compared to 40 per hour per runway in most international airports."

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