

Era of Liberalisation in the Civil Aviation Sector

The Role of Government

24 April 2008



The
Economist

JUNE 3RD '06 2006

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The Civil Aviation Sector: Poised for take off

Passenger Traffic

- Doubled in last 5 years & expected to double in next 5 years
- Average growth in the past 2 to 3 years
 - Domestic 33%
 - International 17%
- Growth in domestic market between Apr 07 and Jan 08 – 29 %
 - Passengers per day grew from 92,800 to 120,000

Freight Traffic

- Growth rate in 2006-07 – 12 %

Domestic tourism market

- 390 million, growing at ~13%

Foreign tourist inflows

- 4.43 million, growing at ~13%

Aircraft fleet of Indian carriers

- Current ~300+
- New orders ~ 400 for delivery by the end of 2015

Airports in India Underutilised Capacity

Total – 448;
Unused Airstrips ~ 300;
Fully functional – 80

BusinessWeek

MARCH 19, 2007 / www.businessweek.com

The Trouble With India

Crumbling roads, jammed airports, and power blackouts could hobble growth

BY STEVE HAMM (P.48)



PLUS

THE BEST
UNDERGRAD
B-SCHOOLS

Wharton, Virginia,
& Berkeley Top Our
2007 Ranking (P.60)

Huge Infrastructural Challenges

Congestion at airports

- Airport and ATC infrastructure inadequate to support growth

Increase in air traffic

- Leading to delays in takeoffs and landing

Decline in Quality of Service

- Passenger
- Cargo

Lost out in Aviation

- Missed the travel boom of the nineties
- Ceded natural geographic and economic advantages as a cargo hub
- Air travel confined to a small section
- Share of India in world traffic - miniscule

Government must Focus on Policy

Put in place appropriate institutional framework:

- Stable Long Term Policy Regime
- Facilitate competition
- Create world class infrastructure
- Ensure independent regulation
- Maximise Safety and Security
- Incentivise Creation of Value Added Services

Need for a Stable LT Policy Regime

Overhaul Institutional and Legal Framework

- Expedite new Civil Aviation Policy
- Put in place LT Private Airports Policy
- Publish LT Policy Roadmaps
 - Integrated Air Space Management Programme
 - Development of the sector in tier II and III cities
- Aggressively benchmark functioning of government agencies to ensure they are best in class
 - Eg: Metrics for CNS/ATM wing to ensure landings/take off in Mumbai/Delhi compare with world standards
- Unbundle and corporatise AAI
- Restructure DGCA
- Comprehensive review of relevant acts/rules – remove inconsistencies
 - Eg: NSOP guidelines & FDI policy
 - Aircraft Act (1934)

Competition will Enhance Quality & Quantity of Services and Prevent Monopoly

Encourage competition by:

- Lowering entry barriers
 - 5 year domestic track record must before entering international sector
- Attracting private participation in all non-sensitive areas
- Allowing foreign airlines to participate
 - Will provide Long Term capital, Management and Technology
- Providing a level playing field
 - End monopoly of AAI & AI
- Abolishing route dispersal policy
 - Big players focus on trunk routes
 - Create regional Hubs
 - Incentivise low cost regional carriers
- Appointing independent regulators
 - Economic - AERA for regulating aeronautical charges/fees, ATC, fuel supply infrastructure
 - Safety - DGCA

ATLAST WE'VE GOT LANDING PERMISSION... AT THE
NEW AIRPORT WHICH WILL BE READY BY 2020!



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Infrastructure – Publish Stable, Transparent, Long Term Policy

- Publish Airport Privatisation Policy (Greenfield Airport Policy to be unveiled soon)
 - Clarify the framework for development of different kinds of airports
- Speed up airport modernisation & upgradation
- Develop a robust regional airport network
 - Modernise / upgrade regional airstrips & aerodromes
 - Develop “Hub & Spoke” model for regional connectivity – EASF for explicit subsidising unprofitable routes
- Independent regulation
 - AERA for “major” airports
 - Why exclude the “non-major” airports
- Airport Connections to Cities – rail & road - Hyderabad !
- Cost of Capital – need for low cost long term finance – FDI
- Fiscal benefits – Clarity on Sec 80 IA

Support Creation of Value Added Services

Make India a Hub for

- MRO
- Pilot training facilities / simulator based training centers
- Engineering and design centre

Provide:

- Fiscal Incentives – customs duty exemptions, service tax relief's, VAT
- Income Tax holiday
- Hassle-free approval procedures

Market Potential

- Global MRO market size - \$ 40 bn
- Asian market – \$ 8.7 bn
- India's share – 8% of \$ 8.7 bn

Potential investors

Airbus, Boeing, HAL, Air India, Lufthansa

The
Economist

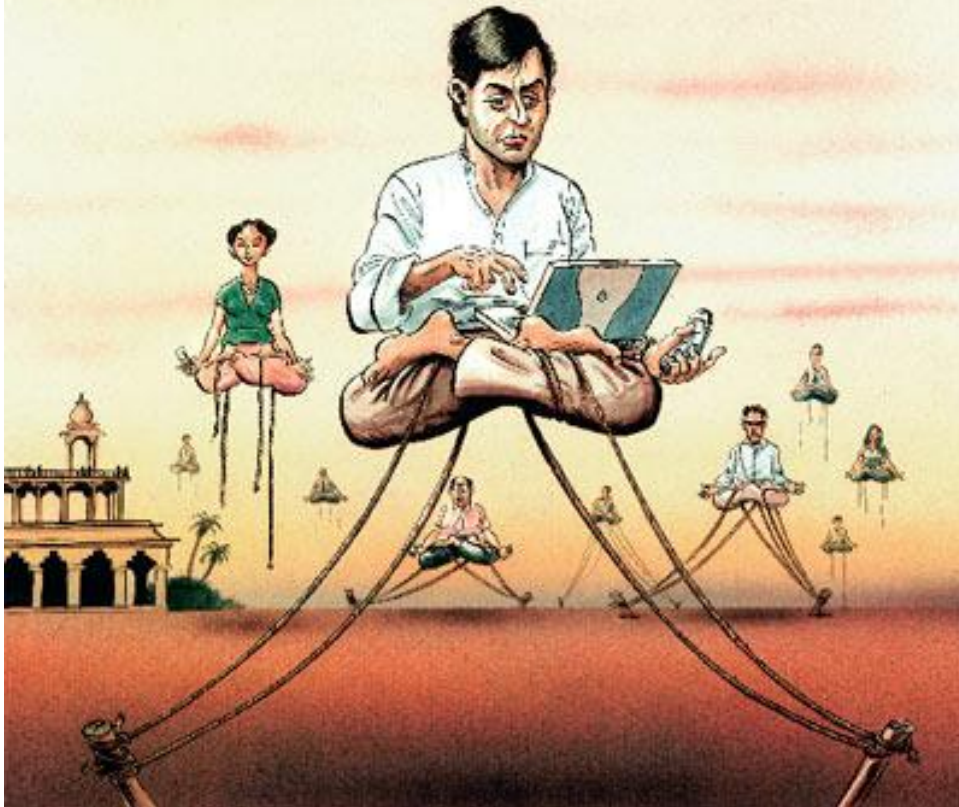
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“The question is no longer whether India can fly... but HOW HIGH..”

The Economist
June 03, 2006