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CIVIL AVIATION BOOM POSES INFRASTRUCTURE CHALLENGES

Heavy congestion at the airports in Delhi, Mumbai and Bangalore implies the need to develop new ports.

India's domestic airlines handled a total of about 21 million passengers during 2005-06. In 2006-07, a 30 per cent rise is estimated.

Over the next two years, commencing from August 2006, about 200 large commercial aircrafts will be inducted by the airlines in the country. It has taken 50 years to build the current fleet size of 275 aircrafts. Even the most conservative of forecasters believe air traffic will grow more than 20 per cent annually. The country requires in near future 2000 planes.

Significant changes

Significant changes are taking place in the airlines sector. For instance, airlines, without exception, are levying surcharges in different ways to bypass the commission payable to travel agents on increased fares. Again, the online booking is followed by a transaction surcharge.

Delhi airport is being revamped. It is going to have Asia's largest runaway—4430 metres. It will be the first in the country with the capability of handling A-380, the largest aircraft in the world. The project requires an investment of Rs 67,030 million in the four years from 2007.

Table I

Funds Utilised by Various Organisations Under the Ministry of Civil Aviation During 2002-03 to 2004-05

(Rs million)

Organisation	Fund utilisation
Airports Authority of India	16,183.7
Air India Ltd	15,807.1
Indian Airlines Ltd	8,894.1
Pawan Hans Helicopters Ltd	1,335.3
Directorate General of Civil Aviation (DGGA)*	104.6
Hotel Corporation of India	102.7
Bureau of Civil Aviation Security	83.9
Indira Gandhi Rashtriya Uran Akademi	44.8

**Including Aeroclub of India*
Source: Lok Sabha unstarred question No. 2330

Chennai-based Air Dravida had announced its plans to operate Bombardier CRT-200 aircraft on regional routes within South India. Surya Airlines also announced its plans to commence operations by 2006 linking Guwahati with various towns in the north-eastern part of India.

In the second half of 2006, as many as 20 small cities (Tier 3 and Tier 4) have been added to the air map of India. These were expected to double in the first half of 2007. This is because more and more airports which were defunct are modernised by the government. It is estimated that there are over 500 cities in the country with huge potential.

Some airlines have set up their own training centres. Air Deccan, with second position in market share, is keen on improving its operational efficiency. It is planning to start its training centre at the Jakkur airfield in Bangalore. The focus will be on engineering, maintenance and manpower training. Another training centre is planned with an investment of $30 million. With these two centres, Air Deccan could save up to 40 per cent of the total training cost, which is around Rs 20 lakh per pilot. In 2006, Air Deccan had a fleet of 14 Airbus A 320 aircrafts and 22 ATR Turboprop aircrafts.

Air India too is considering a plan to join hands with US-based aircraft manufacturer Boeing company for setting up a joint venture company for pilot training. This would be simulator training. The listed price of a simulator is $14 million. The simulator will cut down the cost of pilots going to Dubai or London for training.

Airlines look to ‘sale and lease back’ option for expansion. Under this arrangement, an aircraft is sold by the airlines to a third party, and then leased back for a rental. The option provides immediate cash inflow but the cost of the aircraft is paid over a period of time through lease rentals instead of instalments for acquisition cost. Of course, there is the danger that the lease back option may lead to higher lease rentals for the airline.

By January 2007, Air Deccan overtook state-owned Indian (formerly Indian Airlines), making it country’s second largest domestic carrier after Jet Airways. The primary reason for Air Deccan becoming the country’s No. 2 airline is fleet underutilisation by Indian.

Low-cost carriers have steadily expanded their market share recently. In December 2006, their share collectively stood at 32 per cent, while it was 20.8 per cent in January that year.

The merger of Indian and Air India is yet to take the final shape. However, the merger is being mooted on a decentralised model where the new company will float separate subsidiaries for various operational functions of the airline company. This means there will be different subsidiaries for full-service airline, low-cost airline, maintenance, repair and overhaul (MRO), ground handling, cargo among others.

After dragging on for more than a year, Jet Airways Ltd purchased, in April 2007, Air Sahara by paying Rs 14,500 million. As the original deal signed by both sides was for Rs 23,000 million, the revised price is at a discount of 37 per cent. Jet had earlier paid Rs 5000 million to Sahara. While Rs 4000 million was payable before April 20, 2007, the balance Rs 5500 million is payable in four interest-free annual equal instalments commencing on or before March 30, 2008. The deal will give Jet more than 32 per cent share of the domestic aviation market and add at least 27 aircrafts to its 62-aircraft fleet, in addition to prime landing and take-off slots at major

Table II

Staff Strength in Different Airlines

(in August 2006)

Airline	Number of staff per aircraft
Air Deccan	70
Kingfisher	125
Air Sahara	154
Jet Airways	186
Indian	259
GoAir	268
Air India	429

Table III

Market Share of Airlines in November 2006

Airline	Percentage share
Jet Airways	27.80
Air Deccan	19.70
Indian Airlines	19.00
Kingfisher	9.80
Sahara	8.60
Spicejet	7.30
GoAir	3.80
Others	4.00

airports such as London, Heathrow, New Delhi and Mumbai.

Some problems

As many as ten aircrafts, out of state-owned carrier Indian's 57 Airbus fleet, were grounded for maintenance and want of engines. On an average, seven aircrafts remained grounded at any given point of time. By the end of 2006, nine A-320s and one A-300 planes were not in service for major maintenance.

Fuel prices are on the rise. In September 2006, domestic fuel prices were over Rs 46,000 per kl—the highest in the world. Sales tax on fuel, imposed by states, is on an average of about 24 per cent. In January 2007, oil firms have decided to cut aviation turbine fuel (ATF) prices by about 6 per cent from February. It may be noted that for an international flight leaving India, the fuel price is only Rs 33,400 per kl as against Rs 47,000 per kl for a domestic flight.

There is heavy congestion at the airports in Delhi, Mumbai and Bangalore. Work has begun in Delhi and Mumbai through a private-sector consortium to develop new ports. It is felt that the rush during the peak hours cannot be avoided. Normally, the 7 am to 10 am, and 6 pm to 10 pm periods are labelled 'peak hours.' Airports during these periods handle the maximum number of take-offs and landings. However, Indian airports handle a maximum of 24 flights an hour as against 45 to 50 in busy international airports.

Table IV
A Profile of Air India and Indian Airlines
(February 2007)

	Air India	Indian Airlines
Existing fleet	48	74
Aircrafts ordered	68	43
Employees	15,300	19,300
Revenue (Rs million)	96,770	60,000
Profit (Rs million)	165	490
Pilots	615	700
Passengers (million)	4.4	8
Domestic destinations	–	54
Global destinations	48	18

Airlines are forced to bear additional costs because of the extra flying they do on account of air traffic controller (ATC) delays. The congestion delays in the air not only lead to extra fuel being burnt by aircrafts but also the loss of usage time available on each aircraft in course of the day. Airlines are in no position to bear this additional expense. Hence, a congestion surcharge of Rs 150 per domestic ticket was recently introduced by a few Indian airlines. It costs about Rs 2000 a minute while a plane circles over an airport.

There appears to be no proper manpower planning in the civil aviation sector. Whereas Air Deccan has a strength of 70 per aircraft, the public-sector carrier Air India has a strength of 429 employees per aircraft. However, the employment ratio has no direct relationship with profit level. For instance, Jet Airways, Air Deccan and Spice Jet were in the red.

Civil aviation is affected by pilot shortage. The number of privately owned aircrafts in the Indian corporate sector was 50 in 2005, but increased to 120 in 2007. About 600 pilots are required to fly these machines, but only 450 are available. During this two-year period, the services of 140 foreign pilots were secured. The pilots are now paid an average monthly package of Rs 4.5 lakh to Rs 6 lakh.

Policy initiatives

The centre is keen on developing around 300 unutilised airstrips across the country. The opening up of the unused airstrips will improve regional connectivity. The government is also considering bidding out the airstrips in blocks for development as it may not be feasible to do it individually. It may also consider imposing a cess in the future for viability gap funding to support the unviable airports across the country. Development of 35 non-metro airports in phases is also on the anvil.

The government wants to make air travel during off-peak hours cheaper. The plan to double peak period charges has been given up. Airlines have also been told to scrap the 'congestion' surcharge which is being levied across all regions.

The government is considering a proposal to increase the foreign direct investment (FDI) limit in scheduled domestic carriers to 74 per cent from 49 per cent. The idea is being mooted to increase the funding options for domestic airlines which have drawn up huge expansion plans. Indian carriers are expected to buy close to 480 aircrafts in the next five years involving an investment of about $30 billion.

The government is planning to establish an IIM like institute exclusively for aviation management. The proposed academy will offer a postgraduate diploma in aviation management. The academy may come up soon near Delhi.

Minimum distance norms for new airports are likely to be relaxed. Cities located within 150 kilometres of an international airport may be allowed to construct their own airports. Cities like Noida, Faridabad and Ghaziabad will have their own domestic airports. The current policy prohibits construction of any new airport within the radius of 150 km of an existing international airport.

The government may allow more land for commercial use in airports. Many international airports earn 55 to 70 per cent of their revenues from retail, hotels and malls. The civil aviation ministry has asked the urban development ministry to raise commercial use component of airport lands in the country.

The norms for domestic airlines to fly abroad are going to be relaxed. The government is planning to reduce the requirement of minimum five years of domestic operation to three years. Airlines like Kingfisher, Spice Jet and Air Deccan are willing to expand their operations to foreign destinations.

As per new norms, private operators of international airports will decide which oil company would supply ATF to airlines in their respective airports. Till recently, this was the sole responsibility of the Airports Authority of India (AAI). The move no doubt intensifies competition.

For various states, there are different levels of taxes on ATF. While tax on ATF used in smaller aircrafts has been reduced to 4 per cent in Budget 2007, it has been kept at the same level for bigger aircrafts.

There has been a steep rise in pilot salaries in recent times. Hence, airlines have asked the finance minister for income tax sops for expat pilots working in the country. If accepted, this will help the domestic airlines to cut their wage bill for foreign pilots by around one-third. India produces only around 200 pilots annually while the demand is around 500.

Airlines have a plan to pool their resources for managing security at airports. They are in favour of an independent and common agency for handling security by carriers. At present, each airline maintains separate security, which results in duplication of manpower and wastage of resources.

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