PRIORITY ISSUES TO BE TAKEN UP WITH GOVERNMENT

(A) SHORT TERM AGENDA

PROCEDURAL SUGGESTIONS

➢ **Develop concept plan for 'No-Frills Airport'**

In India, air travel is still being looked upon as an 'elite' mode of travel and has not permeated across the nearly 400 million strong middle class sections. There is a need for the Government and industry to work together and bring down ticket cost and hence making air travel affordable for middle class population. Moreover, there exists great scope for a new dimension for Indian civil aviation in connecting to two tier and three tier cities. Several Tier 2/3 cities in the country are underserved by the air carriers, notwithstanding the tremendous growth of the passenger traffic over the past few years. This is due to the fact that air connectivity to regional, remote and inaccessible areas is crucially dependent upon availability of infrastructure and viability of air traffic operations, which may not be the case with them owing to mandatory fixed costs and very low traffic volume.

There is a greater need to come up with a 'No-Frills Airport' (NFA) model for lowering down the airports charges by reducing the cost of operations of and building regional airports to support regional connectivity. The cost of setting up these airports can be covered by some measures such as doing away with baggage conveyor belts, aerobridges and buses for the passengers without compromising on the safety and security standards. Another alternative that has been suggested is to have a 'Low Cost Terminal' in cities that already have an operational airport. This would offer differentiated cost to airlines and passengers.

➢ **Segregate Air Navigation Services (ANS) functions from Airport Authority of India**

India has been amongst one of the countries experiencing fastest growing aviation market and is expected to be amongst the top three aviation markets globally by the end of this decade. The number of aircraft movements at Indian airports in FY 2012-2013 was around 1.77 million, which is more than double the number of aircraft movement in FY2002-03. The navigation infrastructure on the ground has not been able to keep pace with the growing number of aircraft movements putting ANS under considerable pressure.

The Airports Authority of India is responsible not only for managing and developing more than 120 airports but also for providing air navigation services in Indian airspace. It has been argued that having these distinct activities combined under a single entity and with common financials leads to misallocation of capital and prevents efficiencies from being realised. Segregating ANS functions into an independent corporate entity (ANS Corporation of India or 'ANSCI') with latest infrastructure and well trained professionals is a critical requirement. This would also be in line with standards of International Civil Aviation Organization (ICAO) which states that the primary objectives of ANS and airport operators are different and that ANS functions should be vested with an independent organization to achieve increased efficiency and reduced cost. Segregation of AAI and ANS would enable the specialized functions of airport operations and air navigation to be handled by two independent organizations. The two organizations would have well-defined focus on their respective functions and facilitate timely & strategic operational and financial decisions. AAI with its key focus area of airport development and operations would also be able to focus more effectively on enhancing operational quality at existing airports and developing greater number of regional airports.

➢ **Single window clearance for large infrastructure projects**

Infrastructure projects require multiple clearances at the central, state and local levels, which affect the execution of the project. The regulatory authorities at the central and the state levels lack coordination leading to standoffs on critical approvals. Furthermore, in a diverse and multi-government country like India, there is often a state-wise disparity in granting approvals pertaining to land acquisitions, environmental clearances etc.

As most of these approvals don't have a defined timeline, they impact overall project timelines. Administrative and legal delays are major impediments in gaining timely clearances from the regulatory authorities. These bureaucratic complexities and protracted process for securing approvals are often considered as serious disincentives for the developers and contractors.

Considering the large scale magnitude of investments, the regulatory processes need to be streamlined so as to have speedy action in reviewing the applications, taking approvals at various stages of project development, etc to avoid any delays during the implementation stage. It is recommended that a single-window clearance mechanism must be put in place to ensure speedy clearances/approvals for large infrastructure projects. An *inter-ministerial group on aviation* should be set up to facilitate faster decision making across various government ministries.

POLICY SUGGESTIONS

➢ Classify ATF as 'Declared Goods'

Excessively priced Jet fuel (ATF) in India is a long-standing and an unresolved issue which is contributing to the large losses being incurred by the Indian airline industry and is the most critical problem of the aviation sector today. ATF is the largest individual input cost for Indian carriers and it accounts for over 40%-50% of the operating cost compared to 25%-30% globally. And, the cost of ATF in India is estimated to be around 60% higher than international standards. This is because various states in India set their own sales tax rates, which range between 4% - 30%.

Industry has been demanding for long to accord ATF the status of "declared goods" that carries a uniform tax of 4% throughout the country. Rationalization of sales taxation would result in benefits in terms of increased air traffic, greater economic activity and employment creation. It is understood that MoCA has taken up this issue with other concerned Ministries and certain progress has been made. However, the ATF has still not been classified as Declared Goods. It is suggested to create an inter-ministerial body that would work with various ministries at the level of the central government to take up the issue with various State Governments to expedite the process of bringing ATF under the declared goods category.

➢ Declare 10 year tax holiday for MRO industry

The high tax regime in India is considered as a major deterrent for growth of the MRO industry. Servicing an aircraft in India entails a service tax of 12.36 per cent and VAT of 12.5 per cent, which are absent in case these services are availed from foreign MRO players. This makes aircraft servicing about 40% to 50% more expensive in India than its competing destinations. Due to high import duties (not applicable to foreign MROs), local MROs are not able to maintain an inventory of key spare parts, resulting in Indian aircrafts being grounded for longer periods. Airlines have to incur extra costs arising on account of withholding tax on maintenance related payments towards labour charges and fees for technical services. Current tax regime makes the cost of MRO services less competitive, despite companies having world class facilities and capability to meet global standards in the country itself.

Given that there is a heavy dependence on foreign MROs, domestic MRO ventures should be given a 10 year tax-free status as an import substitution measure. Government earns nearly nothing from MRO – so the tax loss is notional. Tax exemptions for MRO setting-up would be a direct step towards cost-cutting for already bleeding airline sector and save our precious foreign currency, as Indian aircrafts would not be compelled to send their aircrafts abroad for servicing or repairs. It's important to realize that India's aviation growth story can't be successful if there is no strong MRO industry to back it up. Lack of support would not only hamper growth, but would also hold back an enormous employment potential of the country.

➢ Abolish royalty charges levied on MRO service providers

Maintenance, repair and overhaul (MRO) forms another big cost item for an airline. Currently, the MRO service providers have to pay 13% royalty to the airport operators, besides other taxes. This compels the MRO companies to charge their clients additional amount which is extremely detrimental for their business and growth. Lack of infrastructure like a hanger at airports to carry out MRO work makes charging royalty on MRO service providers absolutely irrational.

The AAI, in this case, clubs MROs with ground handling agencies. It has been argued that as MRO operators rent the space and pay lease rentals to the AAI and it's not justified any royalty be paid over and above that. For the ground-handling agencies, it makes sense to pay royalty as they have not invested in any facility at these airports and there is a revenue share agreement between the ground-handling agencies, whereas no such relationships exist between the MRO service providers and AAI.

It is requested to urge AERA to regulate the lease rentals levied by airports on MRO entities and abolish royalty charges to make MRO business more affordable for Indian carriers. This would give a strong impetus to the MRO industry as the country has a huge potential to become a major MRO hub due to better labour costs, lower infrastructure costs, lower training costs and favourable geographical location against global centres.

➢ **Provide fiscal incentives to General Aviation industry**

Fiscal policy in India imposes a combination of import duties, value added tax, and other special levies on the imports of general aviation airplanes for private or corporate use totalling approximately 23 per cent, while one imported for commercial operations attracts duties of 2.5%-3% only. Moreover, GA operators have to make payment of fees to air traffic controllers and ground service providers. This tremendous fiscal burden is causing a major roadblock for the progress of general aviation in India.

It is suggested that General Aviation operations should be actively promoted by relaxing taxes, surcharges, and enabling fuel concessions through schemes such as tax holidays for NSOP operators for say five years, subsidy on fuel (4% taxation), import tax subsidies for aircraft and spares for all GA operators, etc.

➢ **Reduce airport charges for air cargo**

Air cargo operators are faced with multitude of charges - royalty for ground handling services, royalty charges on security services, landing and navigation charges, etc. These airport charges taken together have created an extremely high cost environment for cargo handling which has substantially deterred their hub development.

Infrastructure charges must be set at levels that enable cargo players to satisfy demand for connectivity, provide a reasonable return on investment, and allow for sufficient investment in future developments and service quality. Thereby it is recommended that royalty charges on security services and ground handling services should be scrapped immediately, whereas other airport charges should be set at a reasonable level that would allow air cargo industry to grow seamlessly.

(B) LONG TERM AGENDA
PROCEDURAL SUGGESTION
➢ **Enhance training and skill development infrastructure**

Indian aviation industry is facing acute shortage of trained / experienced technical manpower like pilots, engineers, crew etc. India today faces not only insufficient training capacity but the quality of that which is currently available is, in many cases, questionable. This not only has implications for the efficiency of operations and the quality of the customer experience, but more importantly for safety. Shortfalls in skilled labour could create safety issues and may see staff salaries' rise to manifold. With passengers and aircraft fleet likely to double by 2020, the need to strengthen the human resource development infrastructure is immediate.

Highly-skilled human resource should be developed for civil aviation sector by providing specialized training programs/ courses to air traffic controller officers, pilots, cabin crew, aircrafts engineers and technicians (MRO), ground handling staff, cargo handling staff, administrative and sales staff, etc. In this regard, Government and the industry need to work closely to build world-class training and skill development infrastructure. Cross training among the airlines should be permitted such that general aviation officers may be trained by the commercial airlines at their facilities. Moreover, training institutes should tie up with airlines/ MROs so that the trained people come out with sufficient experience and they can be employed without additional training. Foreign investment needs to be encouraged in training facilities for pilots, engineers, managers and ground staff.

POLICY SUGGESTIONS
➢ **Establish a transparent and investor-friendly regulatory regime**

The unpredictability and lack of transparency in India's regulatory framework continues to be the greatest strategic challenge in the market. There are issues associated with the current tariff regulatory regime like poor rate of return, issues relating to traffic forecast, inflation adjustment, treatment of aeronautical & non aeronautical revenue, etc. An appropriate Till regime is required to encourage private parties to undertake

the risk of investment in developing airports. The Regulator should provide the operator with reasonable bandwidth to engage in business decisions to increase profitability and viability within the overall framework of airport regulations.

There is a requirement for a forward looking and well defined tariff policy in the country which will safeguard the interest of both investors and passengers and also attract investment in the sector. The presence of a favorable regulatory philosophy will help the Government in attracting the planned private investments into the sector in the coming years.

➢ Devise a separate and clear cut regulatory framework for General Aviation

The paradox of Indian General Aviation (GA) industry is that this sector has neither dedicated policy/ regulatory framework nor dedicated infrastructure/services to support it. Moreover, there are several critical issues to be addressed such as lack of specialized airport infrastructure, inadequate aircraft parking space at major airports, procedural delays in landing clearances for aircrafts, multiple-leg flight plans, etc. Further, there are too many approvals required from different agencies involved in the acquisition of an aircraft. Inappropriate standards increase accident risk, reducing the appeal of the sector for investment and increasing the cost of capital.

A comprehensive regulatory framework should be structured to facilitate the establishment of Fixed Base Operations (FBOs) & Maintenance, Repair and Overhaul (MRO) facilities, adequate parking & hangar space, night-landing facilities, developing ATC procedures capable of accommodating increased small aircraft movement, and ground handling services tailored to serve the needs of general aviation. Also, single-window clearance mechanism is required to ensure speedy clearances/approvals for customs & immigration and issuance of permits for overflights & landings by international business aviation, etc.

The helicopter market in India is equally promising with growing requirements in tourism, mining, corporate travel, air ambulance, homeland security, etc. Therefore, heliports should be developed throughout the country especially in remote areas that cannot have runways due to financial or terrain-related challenges.

➢ Formulate separate set of rules and regulations to govern express cargo

There is a desperate lack of an aviation policy that recognizes the criticality of air express to economic progress and one that is conducive to support and stimulate growth. Express airlines are not covered as an industry in Operation, Management and Development Agreement (OMDA) even after the privatization of Delhi and Mumbai airports. Even in the new airports that are coming up, there is no mention of express airlines in OMDA or the airport development policy. Moreover, there is no consistent policy for allotment of dedicated terminal space and facilities for express airlines with limited scope for adequate expansion thereby making them dependent on the arbitrary benevolence of the airport operator. Restriction on night operations and high lease rentals has made setting freighter aircraft operations a costly proposition.

It is requested to accord express airlines the status of separate industry and modify OMDA/airport development policy accordingly to include them. A clear policy is required making it obligatory on the part of the airport operators to allot space to Air Express operators on a dedicated basis at reasonable cost at all major airports within a time bound manner, and in accordance with the projected growth requirements. At the same, it is crucial to remove the restrictions with respect to night operations of freighter aircrafts to facilitate their growth.

➢ Provide dedicated trans-shipment infrastructure at airports for air cargo

The current share of air-cargo compared to other modes of cargo-transportation is fairly low in India. Absence of a full-fledged air cargo hub backed by strong regional air connectivity and road network for the last-mile transportation has deterred the growth of the air cargo industry. The present operating parameters (daily throughput, dwell times) at most air-cargo terminals of the country are far from international best-practices.

Growth of air cargo logistics sector has been hindered due to lack of policy support, intervention of too many agencies, complicated regulatory processes and procedures, congested cargo terminals, lack of parking bays, slow & inefficient handling procedures, high dwell times, lack of enabling infrastructure, warehousing issues, lack of effective technological enablement of cargo handling supply chain, manual processing, etc. Moreover, customs policies for trans-shipment and export / import procedures differ at

various airports. Trans-shipment has been a significant source of revenues for global international airports such as Incheon, Hong Kong and Singapore, which is currently negligible at the Indian airports.

A separate policy is imperative to address the current bottlenecks in the cargo industry. Policy should focus on making India as a preferred trans-shipment hub for air cargo movement. MoCA, Customs, BCAS may work together with industry stakeholders to facilitate faster trans-shipment of air-cargo at Indian airports. It is recommended to make provision of separate terminals for handling cargo at airports, dedicated fast track routes, better infrastructure such as warehousing and high volume throughput systems, simplified procedures, advanced information technology / automation for cargo operations. Moreover, there is need to develop cargo villages with onsite customs clearances as well as container build ups.

➢ Facilitate Flexi-use of airspace by civil and military users

Air traffic forecast for India suggests that the traffic (both passenger and cargo) by the scheduled operators and by the non-scheduled operators covering general aviation and helicopters are likely to witness strong and sustained growth in the next decades to come. Therefore, aircraft movements are also likely to grow in the future at a faster rate than that was witnessed in the past. The likely emergence of regional airlines to cater to air transport needs of Tier II and Tier III Towns and the growth of Low Cost Carriers as an important set of player in the market will no doubt hasten the pace of growth of aircraft movements.

In order to enhance capacity and safety levels in the face of higher air traffic movements in future, the Government has allowed Flexi Use of Airspace by civil and military users, which permits them to efficiently and effectively utilize the available airspace on sharing basis. It is crucial that this initiative be pursued and implemented on priority basis for optimum usage of airspace, enhancement of airspace capacity, minimization of delays, conservation of fuel and reduction in emissions which would ultimately benefit the travelling public. Further, it is suggested that military air navigation officers must also be trained on the civil air navigation systems and vice versa. By undertaking common training of military & civil ATCs on various systems, processes, etc, we would be able to augment the air navigation capacity at a fast pace.

➢ Streamline security clearance procedures

The process of issuing Photo Identification Cards (PICs) to regulate entry into the airport is faced with significant delays. In case of urgent repairs of a grounded aircraft, that may require foreign specialists to be flown in at short notice, the amount of time taken for getting security clearance for such experts is highly time consuming. This renders them ineffective since the opportunity cost of a grounded aircraft is extremely high.

Moreover, with the growth of General Aviation industry, a large number of private operators as well as private airports are likely to develop in the coming years. At present, there are hardly any guidelines to supervise the security aspect of these operations. There is an urgent need to streamline clearance procedure so that there is a logical balance between business exigencies and security considerations.

To overcome problems of delay at domestic airports, temporary passes may be issued by the Airport Director as in the past (The BCAS may lay down the norms for the same). Considering the inadequacy of the staff and balance of convenience, the validity of temporary passes may be extended to handle the current crisis.