IT’S TIME TO RE-IMAGINE THE AVIATION SECTOR

News / Airlines

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To the casual observer, it would seem that the aviation sector in India is doing well. Air traffic has grown at 14% over the last 10 years and India is expected to become the third largest aviation market in the world by 2020.

However, a closer look reveals that this growth has remained concentrated in a few big cities with the top 10 cities contributing 80% of the air traffic while having only 7% of the population and 8% of the GDP.

Airlines are also in poor health, having lost more than $10 billion since FY09 with Air India being the biggest culprit, making up approximately 60% of this loss. In spite of the fall in fuel prices, FY15 also saw airlines rack up a combined loss of $1.2 billion, of which $900 million was Air India’s alone. On the airports’ side, only seven out of 75 operational airports are profitable, of which two are Airports Authority of India (AAI) operated. Clearly, structural challenges need to be addressed to ensure sustainable growth in this sector.

The first challenge is the national carrier itself. The laws of free markets dictate that when there is market pressure the most inefficient player is forced to close but government backing ensures that

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Air India continues to survive. Beyond the loss borne by the taxpayer, this is a problem because the continued presence of Air India blocks the market space which could otherwise have been occupied by new players with more efficient and innovative business models.

The second issue is the concentration of the market in a few large cities. Airlines prefer metro routes because smaller routes aren't currently profitable although there is future growth potential. One way to tackle this is as currently envisaged—mandate airlines to deploy a percentage of their capacity on certain routes. However, this forces constraints on network planning resulting in inefficient networks, cost pressures and discourages new competitors. An incentive-based approach would be a better alternative. One such has been proposed in the new aviation policy—the domestic flight credit system where airlines earn higher credits by flying smaller routes.

The credits can then be used to gain international flying rights. The key to success for this system is in ensuring that the economic value of credits is high enough to make a "minor route" profitable. A transparent market where credits can be traded is essential along with differentiating the amount of credits required to fly an international route based on how lucrative it is.

The third challenge is around building airports in smaller cities. While much has been said about low-cost airports, not enough thought has gone into what it really means to build one. None of the recent modernizations have truly been "low-cost", not even the ones built by AAI.

The key is to move away what we think of as an airport to what we imagine as a small-town railway station. A low-cost airport needs nothing more than an industrial building with basic facilities attached to an airstrip. There may be no need for boarding bridges, baggage carousels or even air conditioning for that matter. Each component needs to be critically examined to cut away anything which isn't absolutely necessary. The erstwhile low-cost carrier terminal (LCCT) at Kuala Lumpur is a great example of this style. This building style could be combined with an approach where the fees itself becomes the bidding parameter for developers rather than being determined based on project cost after the airport has been built. This would provide a strong incentive to build simple, low-cost airports.

In even smaller cities where the demand is no more than a flight or two per week, even a low-cost airport may be unviable. A civil-military aviation cooperation programme could go a long way in these locations.

Enabling civilian operations for a few hours per week at military airfields in select locations along with investment in a bare-bones building to process passengers could substantially bring down costs.

Once traffic grows beyond a certain point, a new low-cost airport can be built. There may be concerns around security but civil enclaves in military airfields already exist and we have successful operating models to handle civilian passengers in a military environment.

The transition we need to make is from viewing air travel as a luxury to looking at it as a means of mass transportation—the way we think of the railways. This impacts a variety of things from airport construction, airline business models to regulations and taxation and all these need to be addressed if the Indian aviation sector is to fulfil its promise of becoming an efficient mode of public transportation rather than the luxury good that it is today.

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