TATA SIA AIRLINES: TRANSFORMATION OF AVIATION SECTOR CAN YIELD $250 BILLION BY 2025

News / Airlines

At a time when the government led by Prime Minister Mr. Narendra Modi has embarked upon an ambitious plan to unleash the growth potential of India's economy,**TATA SIA Airlines** Limited released in Delhi today, a report titled, 'Maximising the contribution of aviation to the Indian economy', prepared for the company by CAPA- Centre for Aviation.

With an anticipated 3-fold increase in domestic air traffic, the Indian aviation sector has the potential to contribute to over 5% of the GDP and create economic value of up to USD **250 Billion** on an annual basis **by 2025**. By 2050, it could generate direct employment for more than 2.3 million people. Looking at the global data and international best practises, the report underlines the need for a supportive supply and regulatory environment to realise the aviation industry's transformative potential. This in-depth research based study of the entire aviation sector is intended to inform and sensitise policy makers and other stakeholders about the enormous benefits of liberalising aviation in the country.

Mr. Prasad Menon; Chairman of TATA SIA Airlines Limited, Dr. Mukund Rajan, Director on Board,TATA SIA Airlines Limited, Mr. Phee Teik Yeoh, CEO of Vistara and, Mr. Kapil Kaul, CEO, South Asia,CAPA India released the report during a press conference in Delhi today.

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Speaking on the occasion, the Chairman of TATA SIA Airlines, Mr. Prasad Menon, said: “The purpose of this report is to provide a comprehensive and structured understanding of the aviation sector and to highlight the significant areas that have the potential to transform India’s aviation sector. CAPA is a well-known advisory and research organisation respected in the industry for their expertise in aviation. We partnered with them to look at how economies and people around the world have benefitted from liberalising the aviation sector. This report will provide valuable insights for greater partnership between government and businesses.”

The report highlights that aviation can play a critical role in delivering many of the government’s priority initiatives including inbound and domestic tourism development, the ‘Make in India’ programme, enhanced trade competitiveness and broad-based socio-economic development.

The report reveals that the incremental domestic traffic handled in the last ten years was almost three times greater than in the previous 50 years. This clearly indicates that Indian aviation is yet to achieve its true potential.

This requires the attention of the highest levels of government to establish a clear vision and roadmap for the sector and create an enabling environment. In a country with low penetration of aviation, where only an estimated 1-2% of the population travel by air and the annual per capita seats are less than a quarter that of China, Indonesia or Thailand, the results of this nurturing could be transformative for the economy.

Laying out the current state of aviation in India and the enormous potential it offers, Director on Board, TATA SIA Airlines Limited, Dr Mukund Rajan, said: “TATA SIA Airlines Limited wants to be a long term player and a supportive participant in the government’s efforts to bring about transformation in the aviation sector. As part of a group that pioneered civil aviation in this country, it will be our endeavour to enable the government to realise the Prime Minister’s vision for India and to help bring people, countries and regions closer. India needs to aspire to create a world class and competitive airline industry that can hold its own. We have proven we can do this across sectors – IT services, metals, automobiles, pharmaceuticals, hospitality and others. There is no reason we cannot do this in aviation. ”

CAPA CEO of South Asia, Mr Kapil Kaul said, “We have completed 110 consulting and research projects in India & South Asia for more than 100 Indian and global clients since 2003, across the entire aviation value chain including airports, airlines, general aviation, ground handling, cargo, express, logistics and infrastructure, air traffic management, maintenance, training, technology, distribution, aircraft acquisition and leasing and investor due diligence – - but this is the first time that a structured report on the entire aviation sector has been commissioned by a direct stakeholder on the need to make aviation in India competitive and viable. While preparing this report we examined global regulatory, policy, fiscal and strategic frameworks across the top aviation markets in the world to understand how aviation had helped economic growth, job creation, businesses and consumers.”

The report looks at opportunities in five categories and has made strong recommendations that could impact the future of Indian aviation:
Reduce the cost of doing business
· Rationalisation of taxes on ATF: ATF, which accounts for up to a significant 30-35% of the operating cost of Indian airlines, is 45% more expensive in India than in the United States, due to the combination of import duty, excise and sales taxation. The removal of sales taxation on ATF would bring its price down by around 20% and deliver a 7% drop in operating expenses, potentially boosting traffic by around 8-9%.

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· Lowering the high cost of airports: The aeronautical charges at India's airports are amongst the highest in the world and more expensive as compared to major neighbouring hubs in the region such as Singapore and Dubai
· Making in-country MROs more competitive: Service tax on labour, VAT on materials, and import duties applied to in-country aircraft maintenance providers should be lifted. This would obviate the current practice of sending empty aircraft to neighbouring hubs for maintenance and spawn an indigenous MRO industry, employing thousands and significantly contributing to the exchequer and to "Make in India"
Make it easier to do business
· Single window process and defined timeline in licensing : Currently to set up an airline up to 10 government agencies may have to be approached, which creates significant delays
· Simplify RDG: Let market forces prevail – Cat 1 and Cat 3 routes should be combined into one. To promote remote region connectivity India can emulate markets like the US, Canada, Europe and Australia, where airlines are incentivised to provide connectivity by means of direct grants and subsidies which ensure that relevant services are provided to the communities which need them.
· Commercial matters should be left to the airlines: Let market forces prevail. Airlines should be allowed and encouraged to innovate for pricing and ancillary service for customers' benefits
· Expedite cargo processing and reduce dwell time: Lack of technology, prevalence of manual procedures and processes, and greater incidence of multiple inspections means that the dwell time of air cargo can be 1.5-2 days for exports and 2-4 days for imports, as against a matter of hours at other global airports, thus increasing costs and spoilage of perishable goods

Create a liberal aviation regime
· Abolish 5/20 rule: Apart from the fact that there are no global parallels to this rule, the regulation is discriminatory to Indian airlines as foreign carriers that do not meet these criteria are allowed to operate in Indian skies, but Indian airlines cannot enjoy reciprocal rights. Indian carriers are best placed to promote India as a tourism destination and should be encouraged to provide international connectivity if they wish to do so.

· Establish a clear bilateral policy: Rule based and transparent award and allocation of bilateral rights is critical for airlines to plan and deploy capacity, and for India to enhance trade and investment ties with strategic markets across the globe
Invest in airport infrastructure, airspace management and skill development
· Set up Airports Approval Commission: India is heading for a traffic logjam with most of the existing metro airport infrastructure getting saturated in 5 years. The Airports Approval Commission should determine what kind of airports India requires, when and where they are required, how much capacity is necessary and the level of capex that should be invested
· Develop supply-side capacity : Investments are also required In airspace management, as also in skill development to support the sector's growth
Focus on safety oversight
· Access to expertise and trained, fit-for-purpose resources are critical for the DGCA to maintain India's international standing as a safe and well regulated jurisdiction

The report concludes that India is blessed with undeniably strong fundamentals to become a global leader in aviation. The aviation sector is at a critical juncture when it needs government and businesses to form a strong partnership and create a collaborative environment to truly transform the industry and establish India as a global aviation hub.

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