



ASSEMBLY — 39TH SESSION

ECONOMIC COMMISSION

Agenda Item 42: Economic Development of Air Transport

REGIONAL CONNECTIVITY SCHEME

(Presented by India)

EXECUTIVE SUMMARY

This paper presents information on the latest policy initiative under India's National Civil Aviation Policy (NCAP) 2016 for enhancing regional connectivity within India through fiscal support and infrastructure development through "Regional Connectivity Scheme".

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives...
<i>Financial implications:</i>	None
<i>References:</i>	

1. INTRODUCTION

1.1 The demand for air transport in India has seen phenomenal growth in last two decades which is expected to be sustained in view of a robust economy, growing middle class, growing urbanization, favourable demographics. India is expected to remain one of the fastest growing aviation markets in the world. However, the domestic traffic growth so far has been limited mostly to the metros and major airports in the country and a large part of the country/population has remained largely unserved or underserved. As the Indian economy grows further, consumption-led growth in populated metros is expected to spill over to hinterland areas. This is also expected to be on account of factors of production (land, labour, etc.) becoming costlier in the densely populated metro cities. In this scenario, air connectivity can provide required impetus to the economic growth of such regional centres (towns/cities).

1.2 In view of the significant impact of aviation industry on the overall economic growth of the country, air transport is a very critical policy imperative for the Government. The Ministry of Civil Aviation (MoCA), Government of India has formulated an all-encompassing National Civil Aviation Policy 2016 (NCAP 2016) in June 2016 with an objective to augment and broad base the growth of civil aviation in the country. One of the key objectives of NCAP 2016 is to "establish an integrated eco-system which will lead to significant growth of civil aviation sector, which in turn would promote tourism, increase employment and lead to a balanced regional growth".

1.3 Although NCAP 2016 seeks to sustain and nurture a competitive market environment in the Civil Aviation Sector whereby the airlines assess demand on various routes, develop networks through deployment of appropriate capacities and equipment, it was felt that facilitating /stimulating regional air connectivity would be desirable from a public policy perspective which may need financial support, at least in the initial period, to trigger participation of players. NCAP 2016 therefore proposes to enhance regional connectivity through fiscal support and infrastructure development, and accordingly provides for a Regional Connectivity Scheme (RCS) to meet the above objective of boosting regional air connectivity.

2. DISCUSSION

2.1 The primary objective of RCS is to facilitate/stimulate regional air connectivity by making it affordable. Promoting affordability of regional air connectivity is envisioned under RCS by supporting operators through:

- a) concessions by Central & State Governments and airport operators to reduce the cost of airline operations on regional routes; and
- b) financial (viability gap funding or VGF) support to meet the gap, if any, between the cost of airline operations and expected revenues on such routes.

2.2 The VGF payments to the selected Airline Operator will be made from a Regional connectivity fund (RCF) which will be created for the purpose. Since the RCS would lead to creation of regional air connectivity / services that would have spin-off benefits within the sector in terms of passengers taking other flights (not under RCS) and using airports / airport services that are not at concessional rates under RCS. Accordingly, the Regional Connectivity Fund (RCF) is to be funded by a levy or fee per departure on domestic routes. The RCF would thus channel funds generated from the sector to stimulate further growth and development of the sector.

2.3 In view of the limited financial (VGF) support proposed to be generated from within the sector, it is important that cost of operations are minimized for air transport operators to the extent possible through concessions from State Governments - especially in view of economic benefits (output & employment related) to the local catchments through provision of such air transport services. Therefore, the State Governments concerned will have to play a major role under RCS. The respective State Governments will also directly contribute a certain share of the VGF determined under RCS.

2.4 A key guiding principle would be to encourage sustainability of operations under RCS in the long term – such that the connectivity established is not dependent on VGF in perpetuity. Accordingly, under RCS, VGF is proposed to be provided for a limited period to facilitate / stimulate regional air connectivity to un-served/under-served areas. However, it is recognized that for select areas, funding may need to be provided for longer periods of time to support provision of air transport services to such areas.

2.5 The RCS operations will be provided various concessions by the Central and State Governments, including tax concessions, free of cost land for RCS Airports, last mile connectivity as required, free of cost security and fire services free of cost at RCS Airports; power and other utility services at substantially concessional rates.

2.6 Airport operators shall not levy Landing Charges and Parking Charges for RCS Flights. The Air Navigation Service Provider (Airports Authority of India) shall not levy any Terminal Navigation Landing Charges on RCS Flights as well as the Route Navigation and Facilitation Charges will be levied at a discounted rate.

2.7 The Airfares on the RCS routes will be subject to a cap based on stage length for fixed wing aircraft and flight duration for helicopters. As per the Scheme, an all-inclusive airfare not exceeding Rs. 2,500 per RCS Seat will be applicable for RCS Flights operated by fixed wing aircraft for stage length of 500 km; and RCS Flights operated by helicopters for flight duration up to 30 minutes.

2.8 The RCS fares, VGF Caps as well as VGF amounts determined for specific routes will be indexed to inflation & ATF prices to offset changes in uncontrollable cost of operations of players in future.

2.9 The operation of the Scheme is proposed to be through a market mechanism where operators will assess demand on underserved/un-served routes; submit proposals for operating / providing connectivity on such route(s); seek Viability Gap Funding (VGF), if any, while committing to certain minimum operating conditions. A draft scheme for stakeholder consultation has already been published, which provides for an elaborate and transparent mechanism to choose the participants for the scheme as well as provides for checks and balances to address the issues of opportunistic behaviour and moral hazard on part of such RCS operators.

3. ACTION

3.1 The Assembly is invited to note the information contained in this paper.

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