

Economic Benefits of Air Transport
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Economic Benefits of Air Transport - Global view

- Aviation is major driver of global economic development, enabling trade, tourism and investment.
- Air transport carries over 2.5 bn passengers p.a. and 35% of international cargo by value. The sector is essential for tourism and provides connectivity to remote regions.
- It is a significant employer. Air Transport Action Group (ATAG) estimated that:
 - 4.7 million people are employed directly by airlines and airports
 - 27 million in direct and induced jobs created by the sector
- Estimates of the contribution of aviation to GDP vary:
 - FAA at 5.2% for the US (including 10.2 million direct jobs);
 - ATAG 7.5% at a global level;
- For emerging markets like India, aviation can play a big role in delivering economic benefits.

Benefits of Air Transport - Indian Context

- **Development:** Connectivity leading to development of remote and underdeveloped regions.
- **Connectivity:** Building roads or railways often expensive. Low Cost Airports for general aviation or Low Cost Carriers (LCC).
- **General Aviation:** General aviation apart from business jets, light aircraft or helicopters for markets. Investment in industry and mining.
- **Tourism:** Tourism dependent upon air connectivity. Low cost airlines, new point to point services stimulates travel.
- **Freight:** Air cargo is a vital element of trade and economic development, carrying 35% of imports and exports by value. Improved access creates business opportunities.
- **Aerospace:** Economic benefits to be generated from aerospace activities through JVs, direct licensed production and maintenance agreements and research and development.
- 1.7m people employed besides indirect employment. Produces high salaried jobs.

Economic Impact in India

- GDP:

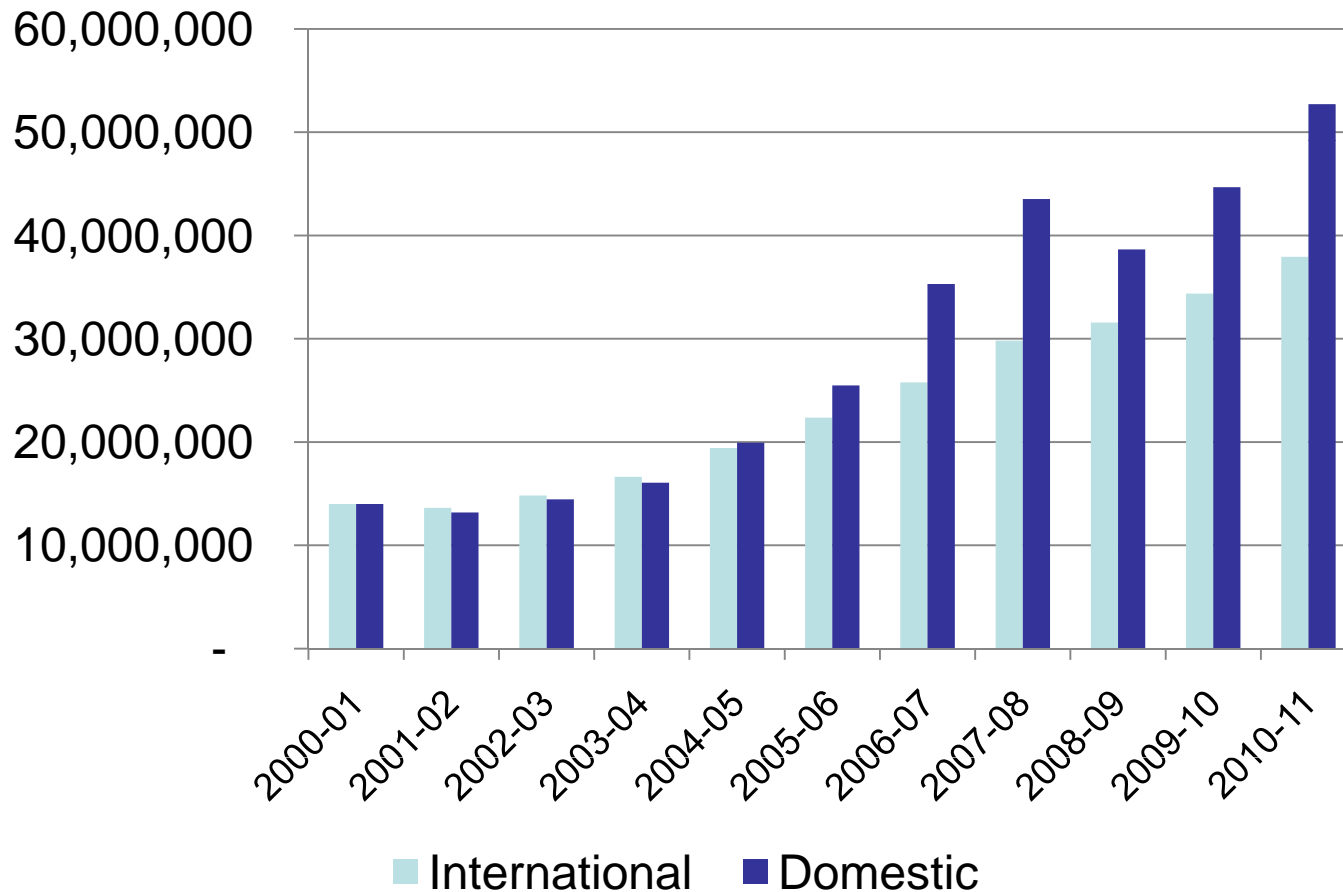
A target contribution of 3-5% to GDP is not unreasonable.

- Projected GDP growth rates of 9% per annum, India will be a US\$3.3 trillion economy by 2020 and US\$7.8 trillion by 2030.
- On these benchmarks, the aviation industry would be responsible for US\$100-165 billion of economic activity by 2020 and US\$235-390 billion by 2030.
- Investment in the sector is expected to reach US\$ 130 billion by 2025.

Historical Development of Indian Traffic

- India has seen dramatic growth in the last decade. During these transformational years, domestic traffic has increased almost 4x and international 3x.

India Annual Domestic and International Pax



Potential for Growth

- Trips per capita in India still remain very low (0.04) even by the standards of other emerging markets e.g. China (0.15), Brazil (0.25) and Malaysia (0.54).
- China's domestic traffic is 5 times the size of India's despite having a population just 15% larger. The upside potential therefore remains huge, driven by strong fundamentals.

	Population	Domestic Traffic 2010	Trips per Capita	GDP per capita
Australia	22 million	54 million	2.45	\$41,000
USA	313 million	630million	2.01	\$47,200
Malaysia	29 million	15 million	0.52	\$14,700
Brazil	203 million	70 million	0.34	\$10,800
China	1,337 million	248 million	0.19	\$7,600
India	1,190 million	51 million	0.04	\$3,500

Source: CIA World Fact Book; FAA, DGCA India, CAAC, Malaysia Ministry of Transport, BTRE Australia, ANAC Brazil.

Projected Growth - India

	Domestic Airline Pax	Int'l Airline Pax	Airport Pax	Growth Multiple	Absolute Growth
2000/01 * CAPA Forecast	14m	14m	42m		
2010/11	52m	37m	141m	3.4x	99 m
2020/21F	180m	90m	450m	3.2x	309m

- Forecasts based on a GDP growth assumption of just over 8% per annum.

Investment to 2020 - India

Fleet

- The total scheduled airline fleet likely to reach 1000 with value of US\$ 80bn+. The general aviation fleet expected to approx. 2000 aircrafts.

Airports

- US\$ 30bn investment required in airport sector US\$ 9bn already completed. By 2020 all metros airports will have plans for second airport (and some cities such as Mumbai will need a third airport). In addition to ongoing modernization, greenfield facilities will also be constructed.

MRO

- A maintenance, repair and overhaul sector to service a fleet of 1000 commercial and 1500-2000 general aviation aircraft, generating an MRO market valued at around US\$ 2.85bn per annum.

Investment to 2020

Ground Handling, Freight & Logistics

- Significant investment up to US\$5bn required in developing world class ground handling, cargo and logistics facilities

ATC

- By 2020 investment of over US\$1.5-2bn in areas such ATM; Airspace Management; Meteorological Technology, etc.

Training

- The massive expansion in fleet and traffic generates demand for skilled resource of 300,000 to 350,000 trained pilots, engineers, cabin crew, air traffic controllers, ground staff and management by 2020. Projected investment in education and training US\$250-300 million.

Key challenges of Air Transport industry in Indian context - Airlines

- India's airlines projected to lose approx. US\$ 2.5bn in 2011-12; aggregate industry losses for the preceding 5 fiscal years is US\$ 8.5bn.
- Total indebtedness of India's 3 big airlines is estimated to be USD 16 billion.
- High cost of ATF coupled with high levels of taxation on ATF & depreciating INR.
- High levels of interest rate (13-14% for working capital & upto 18% on long term capital requirements).
- Annual interest cost of airlines accounts for 15% of revenue and upto 25% for some carriers.
- Extremely competitive market pose significant constraints in fare setting, resulting in low fares & flat yields.

Key challenges of Air Transport industry in Indian context - Airports

- Airport infrastructure availability:

India	-	1 airport for population of 10m
China	-	1 airport for population of 4m
USA	-	1 airport for population of 60k

- Constraints of airport finances related to high cost of long term debt.
- Dilemma of maintaining to provide connectivity vis-a-viz sustainability of airport due to low traffic/services.
- Economic regulatory philosophy of Regulator and airport viability.
- Need for more international operations and hub development.

Policies/Strategies - Role of Government

- Sectoral restrictions on investment by foreign airlines in the Indian airline companies to facilitate access to low cost capital, better management, global best practices & better to access to newer markets.
- Liberalization of External Commercial Borrowing (ECB) norms to ensure easy access to funds for working capital requirements of airline industry.
- Airlines to directly import ATF: will facilitate emergence of potential suppliers of ATF & thus market could become more competitive.
- Cost of MRO (13% of total operating cost) could come down substantially once budget proposals giving custom duty relief to third party MRO is implemented.
- Infrastructure debt fund set up to refinance high cost debt of airport finance.
- Investment in education and training infrastructure – Public and Private sector.

Policies/Strategies (contd/-)

- Economic regulatory framework to ensure that pricing strategies of carriers lead to viable operations – Financial sustainability.
- Measures to fully utilize the unutilized traffic rights of Indian carriers market access in Focus regions leading to promotion of tourism.
- Air cargo potential to be realized fully by making pro-active policy changes such as creation of Air Freight Stations & simplifying procedures in international trade through air.

THANK YOU!