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**ASSEMBLY — 40TH SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 35: Economic Development of Air Transport**

**PROMOTING BALANCED REGIONAL GROWTH IN INDIA FOR SUSTAINABLE  
DEVELOPMENT OF AIR TRANSPORT**

(Presented by India)

**EXECUTIVE SUMMARY**

Air transport in India has grown significantly over the last two decades. However, this growth has been largely concentrated on select routes and sectors. As a result, parts of the country are devoid of market generated supply of air services. Fostering air connectivity to underserved and unserved regions could provide impetus to the economic development of such regions and contribute to a more equitable and inclusive growth in the civil aviation sector.

An innovative Regional Connectivity Scheme was formulated under the overall framework of the National Civil Aviation Policy 2016 (NCAP 2016) to develop India's regional aviation market and make flying accessible and affordable. In a short span of 30 months, this transformational scheme has become a game changer by connecting 40 regional airports with 194 routes.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives – <i>Economic Development of Air Transport</i>
<i>Financial implications:</i>	Nil
<i>References:</i>	Indian Union Budget 2019-2020, National Civil Aviation Policy of India (2016), IATA Report on India's Air transport Sector (2018), Vision 2040 for Civil Aviation Industry (KPMG), Evolution of traffic in various parts of India (CAPA)

## 1. INTRODUCTION

1.1 Connectivity is the lifeblood of an economy. As the world's third largest domestic aviation market, air transport in India has grown significantly over the last two decades. However, the growth has been largely concentrated on select routes and sectors. Providing market generated air services to unserved regions could stimulate the economic development of the regions and contribute to an inclusive growth in the civil aviation sector.

1.2 Air services in particular help to link areas not adequately connected through surface transport. These include parts of the country's difficult terrain (Hilly), far away islands and areas with security (including left wing extremists-related) concerns. Air transport offers some clear benefits over surface transport – reduced travel time and enhanced comfort, contributing to enhanced quality of life.

1.3 Therefore, providing regional air connectivity is an important policy goal for the government. Such services not only cater to the latent consumer demand for convenient travel, but also make businesses and trade more efficient, unlock India's tourism potential, enable fast medical service in remote areas, benefit the economy as a whole and promote national integration. Building connections to under-served and unserved regions also fosters a networked economy as regional passengers move to the national aviation network.

1.4 In view of the above, the Regional Connectivity Scheme (RCS), UDAN (Ude Desh Ka Aam Nagrik) was conceptualized by the Ministry of Civil Aviation (MoCA) to promote regional air connectivity by make flying affordable for the common man. The idea is to put small-town India on the aviation map by encouraging airlines to fly on more regional routes. This is a first-of-its-kind scheme globally, designed to jumpstart the regional aviation market by improving the viability of unserved regional routes through a market based mechanism.

1.5 UDAN will strengthen the overall aviation network through reasonable market-discovered prices for the masses. Passengers will benefit from enhanced air services and affordable air tickets; airlines will see more traffic on their metro and non-metro routes and India will gain through faster economic growth and national integration. Thus, UDAN can be a meaningful tool to India's overall transformation.

## 2. KEY FEATURES OF UDAN

2.1 The scheme, to be in operation for a period of 10 years, envisages providing connectivity to unserved and underserved airports of the country through the revival of existing airstrips and airports. For this, incentives are available to the interested airlines in the form of central and state government concessions as well as through Viability Gap Funding (VGF) so that passenger fares are affordable. The airfare for an air distance of 500 km (approximately one hour of journey) on a fixed wing aircraft or for a 30 minute journey on a helicopter is capped, subject to indexation with inflation, with proportionate pricing for routes of different lengths and flight duration.

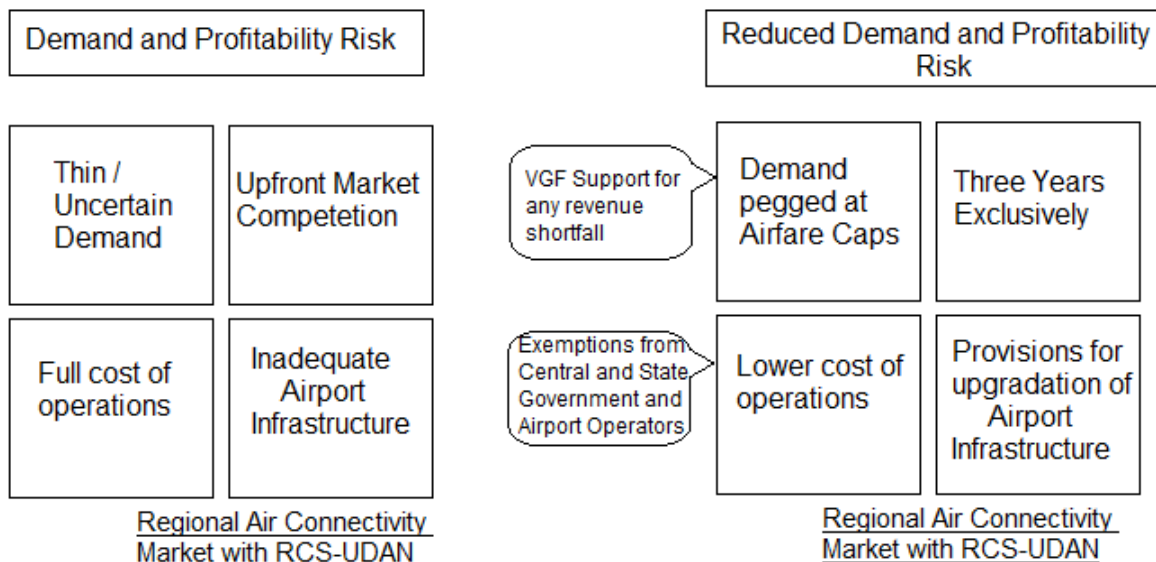


2.2 The Ministry invites proposals from interested airline and helicopter operators for starting operations on hitherto unconnected routes. The operators could seek VGF in case there is a difference in the cost of operations and the estimated revenues. All such route proposals would then be offered for counter-bidding through a reverse bidding mechanism and the route would be awarded to the participant quoting the lowest VGF requirement. The operator submitting the original proposal would however have the right of first refusal on matching the lowest bid in case his original bid is within 10% of the lowest bid. The successful bidder (Selected Airline Operator) would then have exclusive rights to operate the route for a period of three years. Such support would be withdrawn after a three-year period as by that time the route is expected to become self-sustainable.

2.3 The Selected Airline Operator would have to provide 50% of the flight capacity (subject to a minimum of 9 and a maximum of 40) as RCS seats for operations through fixed wing aircraft and all passenger seats up to 13 as RCS seats on the RCS flights for operations through helicopters. For the fixed wing aircraft with less than 9 passenger seats, all seats would be RCS seats. Selected Airline Operators would be exclusivity of operations on their respective awarded routes for a period of three years

### 3. WELL THOUGHT OF INCENTIVES FOR AIRLINE OPERATORS

3.1 To further bring down the cost of flying such routes, the central government would be providing concessions in the form of reduced excise on value added tax (VAT), service tax and flexibility of code sharing at RCS airports. Similarly, state governments would have to lower the VAT on ATF to 1% or less, provide security and fire services free of charge and electricity, water and other utilities at substantially concessional rates. Similarly, landing, parking and terminal navigation landing charges are not to be levied.



#### 4. FUND FOR THE SCHEME RAISED THROUGH SOURCES WITHIN THE SECTOR

4.1 A Regional Connectivity Fund (RCF) has been created to fund the VGF requirements under the scheme. This is being funded through a levy on certain domestic flights. The partner provincial governments also contribute a 20% share to this fund (10% for Union Territories and North Eastern States). This way funds generated from the sector alone would stimulate the growth and development of the sector without any budgetary support from the federal government.

#### 5. INNOVATIVE MODEL OF UDAN

5.1 The unique working model (market driven subsidy to stimulate connectivity) of UDAN is innovative and different from traditional subsidy schemes implemented in the country till date. For instance, the subsidy scheme of the Ministry of Home Affairs for the North Eastern Region specifies the routes and airlines are required to operate air services on such routes based on the frequency of flights per week as decided by the North Eastern States. Modalities under UDAN are entirely market driven and routes are identified by airlines based on their market due diligence and suitability to their network of operations. UDAN stipulates that the airfare cap and the VGF cap for each RCS route are based on a two-step transparent bidding process, ensuring the most optimum bids to government.

5.2 Unlike other infrastructure subsidies, connectivity established under UDAN is not dependent on VGF in perpetuity. Herein, the guiding principle is to encourage sustainability of operations. Accordingly, VGF is proposed to be provided for a limited period to stimulate regional air connectivity to unserved and underserved areas. Additionally, UDAN permits airlines to sell the remaining 50% of flight capacity (non-RCS seats) at market determined prices. This provides an

opportunity to airlines to experiment with airfares and develop the market. Exclusivity of operations for a period of three years is also provided to airlines to stabilize their operations.

## 6. **ROBUST INTERNAL GOVERNANCE PROCESS**

6.1 Detailed Financial Standard Operating Procedures have been developed for the transparent financial management of funds collected under the RCF through recovery of levy from major airlines and VGF disbursement as per the Scheme to the Selected Airline Operators.

6.2 MoCA has constituted a Bids Evaluation Committee and a RCS Approval Committee to deliberate and decide on various implementation issues under the Scheme.

6.3 Accounts for the RCF are maintained by the RCS Cell, AAI which are required to be audited by internal auditors and CAG.

6.4 State level coordination committees have been constituted to coordinate and monitor airport infrastructure development and extension of concessions and benefits to airline operators under the Scheme document. Thirty States (Provincial Governments) have signed MoUs with MoCA and AAI as part of Cooperation in Federalism.

## 7. **CONCLUSION**

7.1 The UDAN Scheme formulated by MoCA has proved to be a transformational policy based on a unique working model which is self-generating and does not require any budgetary support from the Government for providing monetary benefits to airline operators for providing air services to unserved and underserved regions. Within the short span of 30 months of implementation of the Scheme, 40 regional airports are connected with 97 city pairs. The domestic passenger share of airports other than the 6 Metros in India has increased by more than 3% points between financial year 2017 and financial year 2019. The Scheme has led to the identification and development of potential regional airports to facilitate air connectivity in the country, which will be upgraded and developed through the Government's policy for infrastructure development in the country.

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