



ASSEMBLY — 40TH SESSION

ECONOMIC COMMISSION

Agenda Item 35: Economic Development of Air Transport

GROWTH OF CIVIL AVIATION IN INDIA

(Presented by India)

EXECUTIVE SUMMARY

India is presently the seventh largest aviation market in the world with 187 million passengers and is expected to become the third largest market by 2022. It is the vision of the Government of India to make 'Flying for all' by making it affordable and convenient. To this end, the National Civil Aviation Policy (2016) covers several policy initiatives as discussed in this paper.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective – <i>Economic Development of Air Transport</i> .
<i>Financial implications:</i>	Nil
<i>References:</i>	National Civil Aviation Policy (2016)

1. INTRODUCTION

1.1 The Indian civil aviation sector is presently the third largest aviation market on account of domestic air passenger traffic. The total air passenger traffic figures for the year 2018 suggest that India is on track to record a fourth straight year of double digit passenger growth. On a global level, India is among the fastest growing sectors globally and is presently the seventh largest aviation market with 187 million passengers (to, from and within India) in financial year 2017-2018. It is expected to become the third largest market by 2022.¹

1.2 The civil aviation sector appears promising owing to strong economic growth, increase in demand from the middle class, continued population and tourism growth, higher disposable incomes, favourable demographics, increasing aircraft penetration from currently low penetration levels and growth in the aviation infrastructure etc. The growth in the civil aviation sector is also an essential contributor to the economic and financial health of India which creates a large multiplier effect on the economy in terms of creating opportunities for investments, tourism and employment etc. It is pertinent to note that such

¹ Vision 2040 for the Civil Aviation Industry (KPMG) issued by the Government of India during the Global Aviation Summit 2019.

growth coupled with the growth in other sectors, was instrumental to demonstrate a strong GDP growth rate of 6.8% for the Indian economy in the years 2018-2019.²

2. POLICY INITIATIVES AND ACHIEVEMENTS

2.1 It is the vision of the Government of India/Ministry of Civil Aviation (MoCA) to make ‘*Flying for all*’ by making it affordable and convenient. It has also envisaged a safe, secure, and sustainable air travel for passengers and air transport of cargo with access to various parts of India and the world. Further, MoCA intends to provide an ecosystem for the harmonised growth of various aviation subsectors, i.e. airlines, airports, cargo, maintenance repairs and overhaul services (MRO), general aviation, aerospace manufacturing, skill development etc. With the above intent and objectives, the Government of India/MoCA has formulated the National Civil Aviation Policy 2016 (NCAP) which covers several policy initiatives as discussed below.

2.2 One of the objectives of NCAP is to “enhance regional connectivity through fiscal support and infrastructure development”. Accordingly, the Regional Connectivity Scheme (RCS) was released by the Government of India with an intent to facilitate and stimulate regional air connectivity by making it affordable. The RCS has helped in connecting underserved and unserved airports in the country which has resulted in the promotion of tourism. Under the scheme, north eastern region of India has come on the aviation map including new water aerodromes have been approved for seaplane operations. It is pertinent to note that the maximum airfare for 50% seats on RCS flights are capped at INR 2500, involving one hour of flying³. A snapshot of the RCS – number of routes awarded, airports and heliports and routes operationalised is mentioned in Appendix A hereto.

2.3 The civil aviation sector has also witnessed key focus on development of new airports, modernization of existing airports under the initiatives like the Nabh Nirman (for airport capacity augmentation). The total number of operational airports increased from 75 in financial year 2014 to 100 in financial year 2018⁴.

2.4 The Government of India/MoCA has further introduced a number of passenger centric initiatives such as the AirSewa App (for online passenger grievance redressal), ‘Passenger Charter’ (Charter of Passenger Rights) and Digi Yatra (paperless travel). It may be noted that the Air Sewa App and web portal has handled approximately 10,000 passenger grievances, out of which 96% of the cases has achieved closure⁵. Further, the Digi Yatra policy and standards are made with intent to enable paperless travel experience with single point verification, e-boarding, higher throughput and enhanced security.

3. ECONOMIC AND INDUSTRY TRENDS

3.1 The fundamental drivers of the growth of the civil aviation sector like increase in demand from the middle class, population and tourism growth, higher disposable incomes etc. continue to be favourable and supportive of ongoing growth which is likely to continue in the near future.

² Union Budget 2019-2020.

³ Ministry of Civil Aviation, Report on 48 Months of Transforming Aviation in India 2014-2018 (MoCA Report)

⁴ MoCA Report.

⁵ MoCA Report

3.2 The domestic civil aviation market is currently the fastest growing aviation market globally, with financial year 2018 recording 20% year on year growth.⁶ The potential scope for future growth in the Indian domestic market is evident from the fact that the number of domestic journeys undertaken in 2017 represents a mere 7.3% of India's total population.⁷ For financial year 2018, the domestic air passenger traffic stood at over approximately 123 million passengers registering a growth of 19% CAGR from financial year 2014.⁸ India's total passenger travel market (on an origin-destination basis) is forecasted to grow by 3.3 times of the current level (2017) in the 20 year period from 2017 to 2037.⁹ On the other hand, the domestic passenger travel market is forecasted to grow by 5.5 times of the current level (2016) in the 20 year period from 2016 to 2036.¹⁰

3.3 Cargo traffic has witnessed continuous expansion with total air cargo handled at approximately 3.4 million MT, recording a 10% CAGR from financial year 2014.¹¹ It may be noted that air cargo handled at Indian airports grew by more than 20 times from 0.08 million MT in 1972-1973 to 2.5 million MT in 2014-2015. International cargo comprises of 60% of total air cargo tonnes handled in India and grew at 15.6% in 2017-2018. Domestic cargo grew by over 8%, which reflects the skewed modal mix in which roads account for over 60% of cargo transport as compared to the global average of around 30%.¹² For financial year 2017, air freight of 2.14 million MT and 1.21 million MT were handled for international and domestic segments, respectively.¹³ In this regard, the Government's initiatives such as the benefits and concessions for cargo operations under RCS, regulations to ease business and development of multi-modal cargo hubs may further provide a boost to air cargo growth in the country.

3.4 With a strong growth of demand for air travel and indicative trends of market growth, India is set to overtake established aviation markets within the next 10 years to become the world's third largest air passenger market (ranked by passenger numbers, to, from and within each country).¹⁴ Over the next 20 years, IATA forecasts passenger growth of 6.1% per year on average, wherein the number of annual air passenger journeys is forecasted to increase by more than 350 million over the period, moving to almost 520 million journeys in 2037. Further, it is pertinent to note that the low cost carrier (LCC) model continues to be a significant feature in the growth of the civil aviation sector. The number of LCC seats in the Indian market has more than doubled in the year 2018, from a figure of 64 million in 2013.¹⁵

3.5 Some additional key data to illustrate the growth in the civil aviation sector are mentioned in Appendix B hereto.

4. CHALLENGES AND WAY FORWARD

4.1 The Indian civil aviation sector, like any other sector, is dependent on a number of economic, financial and legal/regulatory factors, which together impact the sustainability/profitability of the business and operations of its stakeholders.

⁶ MoCA Report

⁷ IATA Report on India's Air Transport Sector dated August, 2018 (IATA Report)

⁸ MoCA Report

⁹ IATA Report

¹⁰ Report by the Centre for Asia Pacific Aviation India Private Limited dated July, 2017

¹¹ MoCA Report

¹² National Air Cargo Policy Outline

¹³ MoCA Report

¹⁴ IATA Report

¹⁵ IATA Report

4.2 The Indian aviation sector is plagued with higher cost structure, and it is a very competitive and extremely price sensitive market. High taxation rates on aviation turbine fuel, high airport charges, fuel throughput charges and congested airports leading to air traffic congestion are some of the reasons for high operating costs of airlines in India. A case in point was the last financial year, 2018-2019 where most airlines either suffered losses or just broke even and which saw the demise of established players as a result of the nature of the market. Further, the regulatory processes and infrastructure at the airports are not conducive for generating connecting traffic at hub airports which leads to loss of revenue for airlines.

4.3 It would need to be ensured that the civil aviation sector keeps up the pace with growing demand for adequate infrastructure; establishment of 'low cost' airports (including the adoption of 'single till' for tariff determination); increased central/state fiscal support or viability gap funding for new regional and international routes. It is essential that there exists a synchronized growth and expansion/advancement in the infrastructure and technology at the airports, which can seamlessly support the growth of the civil aviation sector in India.

4.4 Going forward, the civil aviation sector will need to address the above challenges which shall facilitate viability, promote competition and incentivize quality and growth in the sector. The Government and the stakeholders must continue to engage in public consultations in order to ensure a holistic, robust and a transparent growth of the civil aviation sector, which in turn ensures sustained growth of the Indian economy.

APPENDIX A

Snapshot of the Regional Connectivity Scheme

Scheme	RCS Routes awarded	Number of RCS Airports and Heliports	RCS routes operationalized
UDAN-1	128	43 Airports	72
UDAN-2	312	30 Airports and 31 Heliports	84
UDAN-3	279	42 Airports and 10 Waterdromes	26
UDAN (Total)	719	115 Airports, 31 Heliports and 10 Waterdromes	182

Source: Ministry of Civil Aviation

APPENDIX B

Airline Overview

IndiGo

The increase in total fleet strength and passenger traffic is stated in the Table below.

Particulars	CY 2017 (as of December 31, 2017)	CY 2018 (as of December 31, 2018)	Increase
Total fleet strength (number)	153	208	~36%
Number of passengers carried	491,97,923	619,49,930	~26%

Source: Company Data

In addition to the above, IndiGo's capacity measured in terms of ASKs grew by 25% in CY 2018 compared to CY 2017.

SpiceJet

The increase in total fleet strength and passenger traffic is stated in the Table below.

Particulars	CY 2017 (as of December 31, 2017)	CY 2018 (as of December 31, 2018)	Increase
Total fleet strength (number)	60	71	~18%
Number of passengers carried	17,304,483	19,294,227	~11.50%

Source: Company Data

GoAir

The increase in total fleet strength and passenger traffic is stated in the Table below.

Particulars	CY 2017 (as of December 31, 2017)	CY 2018 (as of December 31, 2018)	Increase
Total fleet strength (number)	32	49	~53%
Number of passengers carried	99,67,388	1,25,06,925	~25%

Source: Company Data