

INDIA'S OPEN SKIES POLICY ON AIR CARGO

(Submitted by ICAO Secretariat)

1. BACKGROUND

1.1 During the 1980s, the Indian economy grew by over 5 per cent on an annual basis, but suffered from chronic shortages of international air cargo capacity. As the export industry demanded on-time delivery of raw material and manufactured goods, and as the time-sensitive materials were to be delivered more frequently by air, capacity constraint was regarded as the key obstacle that would hinder the industry from enhancing export and foreign currency exchange earnings. Impetus to the reform of air cargo sector was added in 1986 when the Indian government allowed air taxi operators to provide on-demand services primarily to boost tourism on major routes. In the early 1990s, the Government announced an industry-wide "economic disengagement" policy, which aimed at moving from a planned closed economy towards a much less regulated market system.

2. LIBERALIZATION OF REGULATORY FRAMEWORK

2.1 A policy of "open skies" for air cargo was adopted in 1990, initially for a three-year period, and extended in 1992 on a permanent basis (Aeronautical Information Circular AIQ No. 18/1992). Under this new policy, any airlines, whether Indian or foreign carriers which meet specified operational and safety requirements, are allowed to operate scheduled and non-scheduled cargo services to/from any airports in India where custom/immigration facilities are available. In addition, regulatory control over cargo rates for major export commodities has been abolished so that carriers are free to set their own rates. The Government also expressed its "favourable" consideration to application by foreign airlines for additional passenger flights operated by mixed passenger/freight aircraft. These new policies were consolidated into a package together with further liberalization on domestic air taxi operations and relaxation of the rules on international tourist charters, and were implemented on a unilateral basis without requiring comparable rights for Indian carriers from bilateral partners in return.

3. EFFECTS AND DEVELOPMENTS

3.1 According to Indian Government statistics, the period since the adoption of an open skies policy has seen a strong growth in international air cargo traffic, which increased from about 300 000 tonnes in 1991 to over 420 000 tonnes in 1998. The traffic increase was mainly due to a sizeable growth in scheduled services operated by foreign airlines (about 80 per cent increase for the same period), most of which were permitted to inaugurate under an "open skies" policy. For example, Lufthansa, Air France and KLM doubled their capacities to India, while most foreign airlines adopted a strategy of selective entry in peak periods without long term commitments. Carriage on foreign airlines' non-scheduled services also doubled for the first three years, but sharply declined to less than the 1991 level by 1998 because of a marked shift to scheduled services and sea cargo. The boom in air cargo was propelled by the progress of the country's economic liberalization, although

infrastructure bottlenecks including a shortage of warehousing facilities have gradually hampered potential cargo business opportunities.

3.2 Faced with stiff competition from foreign airlines, Air India, a State-owned national carrier, has seen its market share of international cargo tonnage reduced from 23 per cent in 1991 to 16 per cent in 1992 and has remained around that level since. To recover its market share and augment its capacity, Air India submitted a fleet acquisition programme, for which the Government had expressed support, and new wet-leased freighter operations. Indian Airlines, another State-owned carrier serving domestic and short-haul international routes, tripled its cargo operation from 1991 to 1998. The revenue from cargo reached about 10 per cent of Indian Airlines' revenue, but its market share for international cargo was still about 3 per cent, compared to 10 per cent in passengers.

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