

# Problems of Airline Industry in India

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## Manifest pedagogy

Aviation has been in the news for various reasons such as Air India and Jet Airways. In focus for prelims will be important aspects such as new civil aviation policy, RCS-Udan scheme and mains would focus on problems of airline sector as a whole.

## Placing it in syllabus

Infrastructure

## In news

- Aviation sector and its problems

## Static dimensions

- Airline industry in India
- Problems of Air India

## Current dimensions

- Problem of aviation sector
- Issues with Jet Airways
- GST and aviation sector
- IATA report

## Content

Airline industry in India

According to the Directorate General of Civil Aviation (DGCA), India's air passenger traffic has grown by at least 16% annually over the past decade. In 2000-01, it stood at 14 million passengers. In 2017, Indian airlines flew nearly 140 million passengers, most of them domestic. Yet, that growth

has been largely profitless. The Centre for Asia Pacific Aviation predicts consolidated industry losses of between \$430-460 million in FY19.

High aviation fuel prices, rupee depreciation against the dollar, excessive parking and landing charges, loads of debt and fare wars, even some inefficient operations, have been the millstones around the airline industry. Airlines such as Jet Airways, IndiGo, SpiceJet, GoAir and Air India continue to struggle when it comes to financial and operational performance.

Jet, which cancelled all flights, has at least Rs 15,000 crore in dues and leaves more than 15,000 unpaid staff in the lurch. Air India has debt repayments worth Rs 9,000 crore lined up this financial year and limited means to service them. GoAir has grounded at least 10 of its 48 planes for want of a network to fly them. More than 15 top executives have quit the airline in the last few months. IndiGo's Airbus planes have developed constant issues since they were pressed into services, leading to several groundings since 2018. The country's aviation regulator, DGCA recently served notices to the airline on the engine issues and will be conducting a safety audit on its fleet soon.

### Problems of Air India

Saddled with debt of some 550 billion rupees, Air India has been outmanoeuvred by private carriers in India's intensely competitive aviation market. Air India's revenue from passengers topped 55 billion rupees October-December(2018), an increase of 20% on the year.

In December, 2018, parliamentary approval was sought for a capital infusion of 23 billion rupees into Air India, on condition that the airline meet such goals as higher levels of operational efficiency, creating distinct business strategies for each of its core businesses and improving the quality of

its workforce. According to sources, the airline has satisfied enough of those requirements for the injection to go ahead.

As of August, 2018, the airline had received over 270 billion rupees in support under a 10-year turnaround plan approved by the previous government in 2012. The plan provides for a total equity infusion of 302 billion rupees into the airline through 2021. But keeping Air India afloat is only the first step for the government. It must also make the airline appealing to buyers.

When the government attempted to sell the airline along with two-thirds of its debt in 2018, the offer found no takers. Potential buyers were apparently put off not only by the airline's massive debt, but also because the state sought to retain a 24% stake, which would give it a presence on Air India's board and require its consent on important resolutions. Budget documents released on Feb. 1, 2019 show the government will also provide 39 billion rupees for servicing debt transferred to Air India Asset Holding.

#### Problems of aviation sector

- The **rupee depreciation** is hitting carriers hard. About 25-30% of their costs, excluding fuel, are dollar denominated—from aircraft lease rents and maintenance costs to ground handling and parking charges abroad.
- **Aviation turbine fuel(ATF)** prices constitute about 40% of costs for an Indian carrier and are taxed higher here than anywhere else in the world. The Centre charges 14% excise duty on ATF. The states pile on their own sales tax that can go as high as 29%.
- The **intense competition among domestic carriers**, the need to capture a slice of the ever expanding market and passenger price sensitivity makes the airlines difficult to raise ticket prices.
- The new civil aviation policy (NCAP) 2016's regional connectivity scheme doesn't help. The ticket price caps

it imposes under the scheme, the fact that the viability gap funding will last only for three years and various operational issues such as the lack of slots for connecting flights at major airports are a hindrance.

- Rules such as **route dispersal guidelines (RDG)** that mandate airlines to fly a certain percentage of flights in smaller, unprofitable air routes is archaic in nature.
- The projected growth in capacity, because of plane orders, will lead to a 14% shortfall in commander pilots, a part of which will have to be fulfilled by more expensive expatriates, leading to a rise in the wage bill, the second biggest cost chunk after fuel.

IndiGo in February announced it would cut 30 daily flights from its schedule due to a shortage of crew to man its planes. It is hiring at least 100 expatriate commanders.

National Civil Aviation policy( NCAP)

**National Civil Aviation Policy (NCAP 2016)** is government policy approved by Union Cabinet in June, 2016. NCAP 2016 covers the broad policy areas, such as Regional connectivity, Safety, Air Transport Operations, Bilateral traffic rights, Fiscal Support, Maintenance, Repair and Overhaul, Air-cargo, Aeronautical 'Make in India'. **UDAN Scheme** which was launched in April,2017 , is a key component of the NCAP



Issues of Jet Airways

In 2013, the Jet Airways had incurred debts of more than \$2 billion, which is when Etihad purchased its 24% stake in the Indian carrier. It was the first such investment by a foreign airline since India liberalised its rules in 2012, permitting overseas partners to hold up to a 49% stake in the country's carriers.

Jet owes more than \$1 billion to banks, suppliers, lessors and its staff, and has been out of operation since mid-April, 2019 when it ran out of cash. Jet Airways slipped into bankruptcy and risked the loss of thousands of jobs. Jet is the second major airline to bring its shutters down after Kingfisher Airlines went bankrupt in 2012.

As the lenders shopped the airline around, the Hinduja Group, controlled by billionaire brothers, emerged as a potential bidder. Jet is being investigated in cases of potential tax evasion and the Hinduja Group has put its plans to bid on hold as it was wary of being dragged into the potential entanglements.

With Jet Airways remaining grounded, airports have taken back its slots and given them out to other airlines for 90 days. As a result, the central government decided to temporarily allocate the domestic slots as well as international flying rights of Jet Airways to other airlines who could start new flights immediately and fill the supply gap. Bilateral flying rights with five countries (Dubai, Hong-Kong, Singapore, Qatar, UK) which were previously allocated to Jet Airways, have now been temporarily given to Air India. Also domestic slots for 22 flights, which were vacated by Jet Airways, have been allocated to Air India.

On 20 June 2019, the Mumbai bench of the National Company Law Tribunal (NCLT) admitted Jet Airways for bankruptcy proceedings under the **Insolvency and Bankruptcy Code (IBC)**. The tribunal has ordered the insolvency resolution professional (IRP) to complete the IBC process in three months, even though the law allows six months, saying “the matter is of national importance”.

### GST and aviation

Over the last few years the civil aviation industry has witnessed exponential growth under the VAT and Service Tax

regime. Under the new regime, the GST Council has lowered the tax rate for economy class flight tickets to 5%. However, the business class tickets will attract a higher tax at 12%.

Recently Civil Aviation ministry has proposed to bring Aviation turbine fuel (ATF) under the Goods and Services Tax (GST) regime as it will ensure a level playing field for the domestic airline industry. Now different rates of taxes in states is pushing the price of ATF as the refuelling (for airlines) cost completely changes. Airlines could expect an annual relief of up to Rs 5,000 crore by way of input tax credit if ATF is brought under GST. The move could save them from the burden of increased jet fuel prices, besides providing relief to customers.

**International Air Transport Association (IATA)**'s comprehensive report on India's aviation market

The report focuses on the challenges of realising the economic and social benefits of Indian aviation industry that has tremendous potential for continued high-speed demand growth.

Key findings of the report

- Indian aviation is growing fast In 2010, 79 million people traveled to/from/or within India. By 2017 that doubled to 158 million. That number is expected to treble to 520 million by 2037.
- Aviation in India supports 7.5 million jobs directly, in the value chain and in tourism.
- Aviation contributes some US\$30 billion annually to India's GDP.
- By 2026 India is expected to be the third largest air transport market in the world (up from its current 7th place ranking), behind the US and China.
- After adjusting for inflation, average domestic fares fell by more than 70% since 2005.
- The number of domestic airport pairs is 700 (a 50%

increase on 2015 levels).

- India's international market is growing more slowly than domestic market.
- Low cost operators account for about 25% of international capacity.

The study identified several **factors that could impact** the future growth of Indian aviation

Policy Globally, liberalisation and policy stimulus could see India's growth rate rise to 9.1%, taking the total market to nearly 900 million by 2037. Equally, protectionist and other negative policy impacts globally could hold India's growth back to 4.9% and the total market would be 400 million in 2037.

Ease of Doing Business Over the last five years India has risen from rank 132 to 77 on the World Bank's Ease of Doing Business survey. Continued improvement in this area will be critical to sustainable growth of aviation.

Travel and Tourism Competitiveness India has also risen from 52nd place (2015) to 40th (2017) place in the 2017 **World Economic Forum's Travel and Tourism Competitiveness Index**. Continuous improvements in tourism infrastructure, tourism policies, human resources development, airport infrastructure density are among the areas that could further enhance India's competitiveness.

Meeting the significant growth potential of Indian aviation will also create challenges for the airlines, its industry partners and policy-makers. Equally, the broader business and policy environment should not place hurdles which inhibit growth and reduce the level of benefits that aviation can deliver to the nation. The industry, its supply chain partners and the government and policy-makers should have a clear mandate to work in collaboration towards the common goal of ensuring that aviation's economic and social benefits are

fulfilled.