Making Aviation Work for India – commentary by Tony Tyler, IATA’s Director General and CEO
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Aviation supports 1.7 million Indian jobs and contributes 0.5% of India’s GDP. And that is just the beginning. It could do much more.

Connectivity is the backbone of today’s global economy—bringing people to business, tourists to vacation destinations and products to markets. All are important to India’s development. On average, Indians travel by plane once in ten years while Americans travel 1.8 times each year. If Indians traveled as frequently as Americans, the market would be 2.1 billion travelers instead of today’s 120 million.

But instead of flourishing and delivering economic benefits, India’s aviation industry is struggling. The twin shocks of skyrocketing oil prices followed by the global financial crisis hit in 2008—just as India was gearing up for high speed aviation growth. Four years later, the sector’s recovery is hampered by high taxes, insufficient infrastructure, high costs and restrictive investment policies.

**Taxes**

Indian aviation is overtaxed. The 12.36% Service Tax on air tickets and services that airlines purchase such as landing and air navigation, contravenes global norms and handicaps the Indian industry. But that is only the start of the story. Even more damaging is India’s equally unique tax burden on aviation turbine fuel. Domestic fuel uplift is subject to an 8.24% excise duty and state taxes that are as high as 30%. On average around the world, fuel accounts for about 34% of an airline’s cost structure. In India, because of high taxes, it accounts for 45%. This is destroying the competitiveness of Indian airlines.

The Ministry of Civil Aviation (MOCA) understands this. But their colleagues in the finance ministries—at state and national levels—have not yet appreciated the devastating impact of high taxes. The aviation crisis is plain to see. And then there is the invisible impact of the lost opportunities for jobs and growth in the broader economy due to the high cost of connectivity.

A coordinated effort among all Ministries focused on growth is needed. Taxes—particularly the crippling state fuel taxes—must be removed to gain broader economic benefits.
Cost
Alongside taxes, the rising costs at India’s only hub airport is also hampering aviation’s ability to deliver broader economic benefits. Recently the Airports Economic Regulatory Authority (AERA) approved a 346% increase for charges at Delhi’s Indira Gandhi International Airport placing Delhi among the world’s most expensive airports. Based on experience at other airports, in the first year alone, we can expect that the increased costs will reduce passenger air travel in that year by between 7 and 10.5%. This will have a knock-on effect on the businesses dependent on connectivity. And it could be the start of a downward spiral that dismantles Delhi’s ambition to play a key role as a major regional hub.

Successful aviation hubs such as Beijing, Singapore, Bangkok and Dubai are keeping charges low, stable and at times discounted. For example, Beijing invested in a new terminal and runway, and yet is one third the cost of Delhi. We understand that Mumbai may well follow Delhi with a similar exponential increase in charges. This would be a confirmation that India’s private airports and the regulatory environment in which they operate are ignoring the competitive dynamics in the region.

MOCA must intervene urgently with a comprehensive review. That review should also include the 46% of airport revenues that the Airports Authority of India takes as a concession fee as well as the charging structures that discriminate based on type of operation or distance flown. Not only are the latter in contravention of India’s international obligations, they distort competition.

Infrastructure
Charges are not the only infrastructure problem. The lack of infrastructure to meet demand in Mumbai is equally crippling. Mumbai’s current facilities are bursting at the seams. Navi Mumbai is meant to provide much needed relief with the opening of its first phase in 2014. That will not happen. Construction has not even begun! To avoid further delay, the government—state and central—need to coordinate efforts to provide India’s financial capital with the increased connectivity that it needs to play its important role in India’s development.

Investment
India’s airlines need capital to grow. While the 49% cap on foreign investment aligns with general practice globally, the complete exclusion of foreign airlines from investing in Indian carriers is unique to India. Given that foreign airlines could own 100% of mass rapid transit systems, ports, hotels, toll roads or tunnels, the restriction makes little sense alongside India’s other foreign investment policies.

It is encouraging that the Minister of Finance highlighted the need to change this restriction when he announced the Union Budget. This would allow strategic tie-ups with foreign airlines cemented by an equity stake. Such equity partnerships have strengthened airlines such as Lufthansa-SWISS-Austrian-Brussels Airlines, Air France-KLM-Alitalia and British Airways-Iberia, just to name a few.
But we must be very clear. Allowing foreign airlines to invest in Indian aviation is not a panacea. Without addressing the costs, taxes and infrastructure, it could amount to nothing more than a theoretical exercise. Under the current conditions finding an airline investor to come forward will be very difficult.

Common Vision

India has recognized the value of aviation and the importance of upholding global standards with its leadership in opposing Europe's unilateral inclusion of aviation in its emissions trading scheme. It is having a positive impact in turning back a misguided scheme. India must focus similar determination on fixing the problems at home.

The most urgently needed change is the development of a common vision—across levels of government and ministries—for aviation’s potential in India and a coordinated action plan to achieve it. MOCA can and has taken steps in the right direction. But it needs the support of the Ministries of Tourism, Finance, Environment, Petroleum and the Competition Commission, to make the needed changes. With millions of jobs, billions of rupees and the competitiveness of Indian aviation at stake, there is no time to waste.