

GIVING WINGS TO BETTER AIR CONNECTIVITY

Relevant for: Indian Economy | Topic: Infrastructure: Airports

Civil aviation is a Central subject and one that barely got significant attention from the States until recently. It is evident from the fact that very few States in India have active civil aviation departments. This is also due to the reason that States have had a passive role, invariably, having had to look up to the Central government for the development of airports and enhancing air connectivity. However, in the last four years, the situation has changed considerably.

The cooperation of States is seen as a major factor in the growth of the civil aviation sector. The Regional Connectivity Scheme, UdeDeshkaAamNaagrik (UDAN), has become a game changer as this flagship programme has a built-in mechanism to develop stakes of State governments in the growth of the sector.

Thirty States and Union Territories have already signed memoranda of understanding with the Central government. The policies of States and Centre are now being interlinked to make flying accessible and affordable. Governments are poised for the growth as they have the potential to strengthen their partnership under the cooperative federalism framework to provide the required impetus to the sector. Here are some policy intervention suggestions to jump-start the aviation market.

For any airline in India, the cost of Aviation Turbine Fuel (ATF) forms about 40% of the total operational cost. Keeping petroleum products out of the purview of Goods and Services Tax (GST) may be a policy imperative for the State governments but this is a step that adversely impacts the expansion of air services to the States. States have very high rates of value-added tax (VAT) on ATF — sometimes as high as 25% — which has dampened the growth trajectory of civil aviation. ATF is a small component of overall petroleum products and deserves to be treated separately.

The airline industry is capital-intensive and works on very thin profit margins. Therefore, relief on ATF is a major incentive for airlines to augment their operations. For States, it would be a notional revenue loss which can be offset by enhanced economic activities as a result of increased air connectivity to the region. An International Civil Aviation Organization (ICAO) study has shown that the output multiplier and employment multiplier of civil aviation are 3.25 and 6.10, respectively. Empirically, this has been proved in many airports within India where the connectivity has changed the economic landscape in a positive way.

Pending the decision on ATF at the GST Council where States are the major stakeholders, UDAN has motivated State governments to reduce the VAT on ATF to 1% for the flights that are operated under this scheme. Airports such as Jharsuguda (Odisha) and Kolhapur (Maharashtra) have successfully attracted airlines to connect these hitherto unconnected regions. Reducing VAT on ATF is the biggest lever States can operate, which will enable them in being an equal partner in steering sector policy.

The second area is in the development and management of airports. There are many regional airports which can be developed by States on their own or in collaboration with the Airports Authority of India (AAI). In this, there have been different models of public-private-partnership which can be leveraged to develop infrastructures. Land involves huge capital and is a scarce resource. Innovative models can be explored to create viable 'no-frill airports'. These functional airports can open up regions and change the way people travel. India had about 70 airports since Independence until recently. Under UDAN, the Union government, with the help of the

States, has operationalised 24 unserved airports over the past two years; 100 more are to be developed in the next five years, which can only be achieved through the active collaboration between willing States and the Centre.

Third, States and the Central government can play a crucial role in supporting airlines to develop air services in the remote regions. To reduce operational cost of airlines and airport operators, incentives from State governments have been sought: some in the form of financial support such as VAT reduction; sharing of viability gap funding with airlines, and non-financial incentives such as providing security and fire services free of cost to airport operators. Similarly, under the scheme, the Union government has declared concessions on excise duty on ATF and made budgetary allocations for airport development. This unique scheme has been successful in encouraging airlines to operate on regional unconnected routes instead of trunk routes. Market appetite and aspirations of remote areas can match the plans of airlines where States play a catalytic role. Under UDAN, some success stories have motivated States to announce innovative approaches and policies in support of airlines.

However, to attract airlines from regional to remote connectivity, further interventions are necessary. Considering the infrastructural constraints and difficult terrain, small aircraft operators need to be encouraged. Many a time, policy reluctance is observed considering the financial non-viability of the models to connect remote areas using smaller aircraft and helicopters. But air connectivity to these difficult regions is indispensable. Areas which cannot be connected meaningfully by road or rail have to be linked by air. No doubt, they will be cost-effective if the economic analysis is factored-in. For example, travel from Dehradun to Pithoragarh (both in Uttarakhand) by road takes 16 hours and communication is almost cut-off in the rainy season. Air connectivity would not only bring down travel time but also be a boon in emergencies. This is also true for northeast India, the islands and also hilly States.

Convergence is an element in governance which is often overlooked due to a compartmentalisation in implementation. States may converge their relevant schemes relating to tourism, health, and insurance for supporting air connectivity to supplement the objectives of regional connectivity.

Currently the penetration of the aviation market in India stands at 7%. There is potential to be among the global top three nations in terms of domestic and international passenger traffic. For this States need to create a conducive business environment to facilitate the strong aspirations of a burgeoning Indian middle class to fly at least once a year. It would boost ticket sales from the present level of eight crore domestic tickets. Developing airports, incentivising airlines and pooling resources of both the Union and State governments can accelerate the harmonised growth of the Indian civil aviation sector which would be equitable and inclusive.

Usha Padhee is Joint Secretary in the Ministry of Civil Aviation, Government of India. The views expressed are personal

Support quality journalism - [Subscribe to The Hindu Digital](#)

Please enter a valid email address.

How an idea for a 'perfect Mumbai feature story' failed to materialise

Choose Quality Journalism, Get rewarded

Subscribe and get our Aug 15, 1947 Collector's Edition as an ebook.

Your ad blocker is blocking quality Journalism

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com