

## FICCI - EY Survey on Civil Aviation Sector

### *Indian Aviation: Waiting on the Runway*

**New Delhi, 6 September, 2013:** While the Government has been broadly successful towards making India's aviation climate positive and favourable through a series of policy initiatives, seamless implementation of the policies is what would really matter in the medium-to-long run, findings of a FICCI-EY survey on civil aviation sector reveal. According to the survey-respondents, the Government is continuously pushing for revival of India's aviation sector by introducing several supportive regulatory and policy measures such as allowing 49% FDI by foreign carriers in domestic airlines, permitting direct import of fuel by airlines, abolishing the aircraft acquisition committee, allowing Flexi Use of Airspace by civil and military users, emphasizing on the development of airports in tier-2 and tier-3 cities to boost regional connectivity. Though recent developments in the aviation sector have given a positive impetus to the sector, however the growth of the industry is still constrained due to multiple factors, according to the findings of the FICCI-EY survey.

The survey was conducted to capture the views of the civil aviation industry on various policy announcements and how these developments are going to define the future of aviation landscape in the country. While 59% of the respondents recognize the government's recent efforts as positive measures, at the same time they feel that implementation of these policies is important indeed. Around 57% of the respondents highlighted that "high taxation" and "policy regime" are the major deterrent to growth of aviation industry. Lack of access to finance, shortage of trained manpower, rising fuel costs, infrastructure bottlenecks, high operating costs and lack of incentives are other issues stalling the growth of aviation industry in India.

Moreover, 90% of the respondents pointed out that relaxing FDI norms is a positive step towards the revival of the Indian aviation market and it would help bring in the required capital & expertise, achieve economies of scale and drive competition. Mixed views however exist on the question of promoting Indian airports as hub due to growing joint ventures between foreign and domestic airlines. Respondents feel that terms of agreement of the joint ventures, such as Jet-Etihad and AirAsia-Tata, will be a deciding factor in determining whether

strategically located Indian airports can be positioned as hubs. They also believe that Government has a crucial role to play in providing a level playing field to Indian carriers in the bilateral agreements and negotiations, in order to ensure that unduly large share of traffic is not taken away by the foreign carriers.

It has been observed that the development of low-cost airports in tier-2 and tier-3 is taking place at a slow pace (49% of respondents). Further, more than 90% of respondents stated that delays involved in land acquisition and environmental clearances are key issues impeding greenfield airport development in the country. These clearances add to the project costs and thus impact financial viability of projects. Over 64% are of the view that air cargo and ground handling offer significant opportunities in future. However, poor infrastructure, lack of adequate warehousing facilities, delayed policy implementation, slow export-import procedures, restricted custom working hours and lack of a clear and forward-looking policy are severely affecting the air cargo and ground handling industry outlook.

With regard to the MRO market in India, over 72% of the respondents feel that even though India is strategically located, the domestic MRO industry is not geared up to deal with the rapidly growing diverse fleet of airlines and non-scheduled operators. As per the survey, the main challenge in positioning India as an MRO hub comes from an extremely disadvantageous tax regime, specifically in terms of customs duties, VAT and service tax. Aircraft servicing about 40% to 50% more expensive in India than competing destinations like Singapore, Dubai, Colombo, etc. High taxes more than offset any advantages that India gains in terms of labour costs, which are roughly 30 per cent lower than competing MRO hubs. Also, there is shortage of institutions which can produce skilled technical manpower required to handle MRO operations.

Majority of the respondents (77%) agreed that establishing the National Aviation University is a positive step toward addressing the issue of shortage of skilled manpower. According to the feedback received, the industry lacks not only the technical skills (pilots, engineers, technicians, air traffic management, flight planning etc), but also has acute shortage of trained cabin crew, and in the areas of ground handling, aviation finance, airport management and airport retailing.

According to respondents, the Indian aviation industry has enormous potential and is heading towards growth given the current policy reforms being undertaken by the government. However, a number of policy and regulatory issues and other roadblocks are still required to be addressed to achieve sustainable growth, findings of the survey suggest.

### **Salient Findings of FICCI - EY Survey**

Taxations issues constitute the largest impediment to growth of aviation industry  
Poor infrastructure is responsible for congestion at airports, leading to increase in airline operating cost.  
Formulation of Civil Aviation Authority seen as crucial step for development of Indian civil aviation sector  
Liberalized FDI norms has the potential to put the aviation sector on a high growth path, provided the Government ensures level playing field to Indian carriers  
Land acquisition and environmental clearances seen as major roadblocks impeding the development of low cost airports in Tier-2 and Tier-3 cities  
Indian players lack level playing field when compared to their foreign counterparts, specifically with respect to taxation on ATF, MRO, etc

### **Key Policy Inputs/Suggestions**

Actionable roadmap and clear vision for development of aviation sector  
Expediting formulation of Civil Aviation Authority as an autonomous body with operational, financial and administrative independence  
Accord ATF the status of “declared good” that carries a uniform tax of 4% throughout the country  
Single window clearance for airport projects  
Rationalizing tax structure for MRO industry  
Infrastructure status to Airlines  
Central and State Governments to work in tandem to enhance regional connectivity  
Review bilateral agreements to provide a level playing field to Indian carriers  
Transparent and forward looking policy on ground handling services must be put in place

**Detailed survey findings: <http://ficci.com/SEDocument/20260/FICCI-E&Y-Civil-Aviation-Survey.pdf>**

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