

## PROBLEMS AND PROSPECTS OF CIVIL AVIATION IN INDIA

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### ABSTRACT

*The transport system provides the essential infrastructure for the development of a country. The demand for expansion of transport generally drives from the need of other sectors of the economy like agriculture trade industry and tourism etc. The transport requirements of any country determined by three basic components the population, the consumer needs, and the agricultural and industrial production. Out of these three components the first one is, size of population which itself determine the size of the other two factors. Transport sector has shown a massive increase during last three decades and also indicates an alarming growth potential during next twenty years. Transport development requires adequate resources and efficient management. The sector needs long range and heavy investment. Transport sector is generally considered as an infrastructure sector. It provides the basic engine of growth to an economy. The development of transport sector also enhance the production process in a country like India. Infrastructure needs long and heavy investment. Private firms do not find infrastructure provision as profitable. Beside this, these projects has very low internal rate of return and low pay back periods.*

*Air transport is a fastest mode of transport. It plays an extremely important role in time of emergency like war, floods and epidemics. It is also helpful in trade of luxurious and perishable goods. It is also time saving mode of transport. But presently Indian air transport facilities and air services infrastructure is constantly under pressure. Services provided by different airlines are quite inadequate to meet the traffic requirement on many crowded routes. Air transport sector is facing many problems like higher operational cost, rising aviation turbine fuel prices, terminal related problems, maintenance, repair and overhaul facilities at airports. In present scenario, air transport sector is in financial crunch. There is urgent need to allow foreign direct investment to meet the financial challenges by the air transport sector in India. This paper will discuss about Problem and Prospects of Civil Aviation in India.*

**KEYWORDS:** *Civil Aviation, Industry, Profitability.*

### Introduction

The first air service in India started in 1912. A passenger flight operated between Karachi and Delhi started the era of civil aviation in India. The flight was started by the Indian State Air Services in collaboration with the UK based Imperial Airways. JRD Tata founded the first Indian airline -Tata Airline in 1932. Nine air transport companies were carrying both air cargo and passengers at the time of independence namely Tata Airlines, Indian National Airways, Air service of India, Deccan Airways, Ambica Airways, Bharat Airways, Orient Airways and Mistry Airways. Orient Airways shifted to Pakistan after partition.

In early 1948, Government of India established a joint sector company, Air India International Ltd in association with Air India (earlier Tata Airline) with a capital of Rs 2 crore. According to Air Corporations Act, 1953 the Government nationalized nine airline companies. Indian Airlines Corporation (IAC) was established to cater to domestic air travel passengers and Air India International (AI) for

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international air travel passengers. Existing airline companies were transferred its assets to these two corporations. According to this Act IAC and AI had a monopoly over the Indian skies. In 1994, Vayudoot, A third government-owned airline, which provided feeder services between smaller cities, was merged with IAC. Indian aviation industry was dominated by these government-owned airlines till the mid-1990s.

In April 1990, the Government adopted open-sky policy and allowed air taxi- operators to operate flights from any airport. In 1994, the Indian Government, as part of its open sky policy, ended the monopoly of IA and AI in the air transport services by repealing the Air Corporations Act of 1953 and replacing it with the Air Corporations (Transfer of Undertaking and Repeal) Act, 1994. Private operators were allowed to provide air transport services. Foreign direct investment (FDI) of up to 49 percent equity stake and NRI (Non Resident Indian) investment of up to 100 percent equity stake were permitted through the automatic FDI route in the domestic air transport services sector.

By the year 1995, numerous private airlines had ventured into the aviation business and accounted for more than 10 percent of the domestic air traffic. These included Jet Airways Sahara, NEPC Airlines, East West Airlines, ModiLuft Airlines, Jagsons Airlines, Continental Aviation, and Damania Airways. But only Jet Airways and Sahara managed to survive the competition. By this time, Indian Airlines began to lose market share to Jet Airways and Sahara. Today, Indian aviation industry is dominated by private airlines such as Deccan Airlines, GoAir, Spice Jet etc; these include low cost carriers who have made air travel affordable. In India Airline industry is plagued with several problems. Reasons are high aviation turbine fuel (ATF) prices, increasing labour costs and lack of skilled labour, rapid fleet expansion, and strong price competition among the players. Infrastructure constraint is one of the major challenges facing by Indian aviation industry. If Indian aviation industry has to continue its success story Airport infrastructure needs to be upgraded. In this direction some steps have already been taken. The future prospects of Indian aviation sector look bright.

#### **Problems of Air Transport in India**

In India, the industry which has been the arrival of more than a dozen low budget airlines is suffering from serious growth problems, from inadequate infrastructure to struggles to meet surging demand. Delays, safety, customer satisfaction and operational headache worry the industry. India's booming aviation business needs more airports, pilots, flight crew and less stressed air traffic controllers. A lot of problems which are generated and perpetuated in the civil aviation sector stems from a lack of foresight. On the part of the government which is conspicuous by its absence, is the lack of a proper policy of civil aviation. This gives rise to a lot of anomalies in the present system which in turn hinders the proper development of air services in India. Air transport has shown significant progress in India but it has faced some problems. The problems of the air transport are as follows:

- **Gaps in Infrastructure:** The unexpected growth in the Indian airline industry has created a huge vacuum in the infrastructure required to support the increase in the number of passengers, aircrafts and flights. Airport and air traffic control facilities are inadequate to support such growth. There is an urgent need for up gradation of infrastructure at Delhi, Mumbai, Chennai, Kolkata and Bangalore airports to handle increase in passenger load. Some other issues that need to be immediately addressed are: (a) higher fuel consumption due to long holding fuel consumption and long holding times on the ground as well as in the air; (b) lower utilization of aircrafts resulting from slot constraints and air traffic congestion; (C) Sub – optimal route network strategies because of insufficient night parking stands at major airports and (d) lack of advanced navigational aids like approach lighting system at the airports. While a beginning, no doubt has been made in the context of upgrading of existing infrastructure, the results, at current sluggish pace, may be visible after a few years.
- **High Input Cost:** Aviation turbine fuel prices continue to be abnormally high in India as compared to those charged globally. In India aviation turbine fuel accounts for about 38 percent of the operating costs as compared to the global average of about 23 percent. High basic rates are aggravated by heavy taxes imposed by state governments. Infact fuel costs in India are about 65 percent higher than international standards. Consequently the Indian aviation industry has been lobbying hard all along for a better deal in items of lower air turbine fuel prices matching international levels. To make the matter worse, there is unfair discrimination among turboprops and regional jets with the latter being charged higher sale tax for their fuel needs. Other reasons for high input costs are increased maintenance charges, aircraft lease rentals and manpower costs.

- **Skilled and Qualified Personnel:** There is a severe lack of skilled and qualified personnel right across the sector even at existing air traffic levels. The shortage is particularly noticeable in case of pilots, licensed engineers, air traffic controllers, cabin crew and other skilled staff required to manage passengers, baggage and cargo. This will only be exacerbated by the growth in the industry.
- **Inefficiency:** The government owned airports in India have been inefficient. Further maintenance of the facilities has been dismal leading to deterioration of the infrastructure.
- **Capital Shortage:** The Airports Authority of India is responsible for a number of airports in India. The capital allocation is done through a central mechanism that is removed from ground realities and has been inefficient in the past. The government also lacks resources to sufficiently upgrade and maintain facilities.
- **Control:** A problem with public private partnership may be the potential of control by the government. Control could be exercised either directly by the way of government representatives on the boards of the companies or indirectly through regulations.
- **Political Problems:** Public sector units in India have a history of political problems and hence there is a potential for similar problems arising in airport privatization. The left front and the employee unions, have opposed the move to privatization of the airports. However the formation of joint ventures for Delhi and Mumbai airports has processed. Another problem has been the allegations of foul play in the selection of joint ventures partners.
- **Agency Problem:** The government is still in the learning mode as privatization in the early stages. A recent example is the proposed change in concession agreement for future airport privatization processes. This agreement shows change in the revenue shares from revenue based to tariff based. This would prevent the problem of cost padding (artificially increasing costs to depress revenues and hence reducing the payment to the government).
- **Infrastructure Bottlenecks:** There is hardly an airport with than one runway. Also, none of the runways can handle wide bodies like the A380. There is serious shortage of parking bays. Ground facilities are hardly sufficient to process the current passenger volume. While the offer of cheap tickets and conveniences of choosing among different airlines and flight timings are luring domestic flyers, there are other issues that need attention. If one talks to regular flyers today, one will come across endless tales of how flights circle above airports, waiting to land or they are made to wait endlessly in aircraft because of the long queues of planes either waiting to take off or land.
- **Traffic Jam:** Airport Privatization is facing rough weather. The ground infrastructure of metro airports is very poor. Delhi and Mumbai together handle around 60 percent of India's passenger traffic. It typically takes 10 to 15 minutes for any flight to land at Delhi or Mumbai airports. There is no proper forecasting system. So entry and exit of airlines is not based on traffic projections. As a result at one point of time between Delhi and Mumbai there were size operators although it has-been historically seen that three to four operators are the maximum that any route can sustain. As a result all the airlines had low load factors and this contributed to their sickness.
- **Safety Concerns:** We do not have any policy on issues that pertain to safety and environment concerns. We do not have required regulations also on these issues.
- **Lack of Financial Resources:** Innovation and new development in the sector of civil aviation becomes a problem for India. Modern aircrafts are costly and require more financial resources. A lot of foreign currency is spent on buying aircrafts, as they are not built in India.
- **Dual System:** Government of India has set up two separate air corporations for internal and external air services. It creates managerial problems. Due to this dual system, operating efficiency is reduced and the operating expenses have increased.
- **Lack of Modern Facilities:** Sufficient and amenities are not available at Indian airports. Therefore less number of Passengers are attracted.
- **Higher Rent:** Civil aviation emphasized mainly on the expansion of air services without considering the safety and cost factor. So airfares of Indian airlines are higher than of other international airlines. Thus air services are limited to higher class people.

- **Strikes:** Generally air transport is suffering from the strikes of pilots and other air staff. Thus air services remains suspended for long durations which results as bad reputation of the company.
- **Lack of Training and Research:** There are only a few training centres for pilots in India. These training centres are very expensive. The desired number of good pilots are not available. Also adequate research facilities are not available in the country.
- **Accident and Hijacking:** Air transport is most accident prone means of transport. News of air accident due to bad Weather, technical failures etc. can be heard frequently. It is most unsafe means of transport due to the frequent events of hijacking by terrorist.
- **Increase in Petroleum Price:** During the last few decades, the cost of petroleum is increasing rapidly. As India cannot meet its demand, it needs to import petroleum from other countries. Therefore the operating expenditure of air transport has increased.

#### Others Problems

- It has limited capacity to carry passengers and cargo in comparison to road and rail transport.
- Its services are limited to a few big cities and industrial centres.
- The government wants to create an open sky policy because the entry of guidelines for an airline is not transparent and consistent. They are not in accordance with any traffic projections.
- There is no system of incentives in the categorization system. Incentive systems like the region benefiting from this practice compensates the airline, or a system of tradable permits which ensures that the lowest cost airlines operate is absent.
- Many smaller airports suffer from the 'watch hour' problems. This constitutes a major problem in the development of fractional ownership of aircraft. There should be at least a 24hours airport in each region.
- There is no systematic and transparent system to allocate landing (time) slots, parking space, air terminal space ticket counters etc. The present civil aviation policy is alleged and has a strong bias towards the public sector carriers. This also hinders the overall growth plan of the industry.
- There are certain price related problems that act as bottlenecks. These are related to taxation of air turbine fuel, high airport charges, high customs duty on avgas fuel, and high parking and hangar fees. These are not in line with either international practice nor are they based on economic principles. They generally lived on adhoc fashion, which retards development of airline services in India.

#### Suggestions

India's booming civil aviation business is suffering serious growth problems from inadequate infrastructure to meet surging demand. Delays, safety, customer satisfaction and high operational cost worry the air transport industry. In this regard, the following suggestions should be addressed to the government:

- The unexpected growth in the Indian airline industry has created a huge vacuum in the infrastructure required to support the increase in the number of passengers, aircrafts and flights. There is an urgent need for upgradation of infrastructure at Delhi, Mumbai, Chennai, Kolkata and Bangalore airports to handle increase in passenger load and cargo load.
- Aviation Turbine Fuel Prices (ATF) continue to be abnormally high in India as compared to those charged globally. In India ATF accounts for about 38 percent of the operating costs as compared to the global average of about 23 percent. The prices of ATF should be rationalized.
- There is a severe lack of skilled and qualified personnel. This shortage is particularly of pilots, engineers, air traffic controllers, cabin crew and other skilled staff which is required to manage passenger's baggage and cargo etc. Hence, the Government should set up national and state level institutions for human resource development in the sector, so as to meet the demand of the industry.
- In India, all major and minor airports are managed by the government owned agency Airports Authority of India (AAI), as usual, our airports have been known to inefficiency. These airports should be managed through public private partnership model.

- Fund allocation is also a big problem. The fund allocation is done through a central mechanism that is removed from ground realities and has been inefficient in the past. There is urgent need to allow Foreign Direct Investment for fast growth and development of this industry.
- A problem with public private partnership model is the potential of control by the government directly or indirectly. There should be given more autonomy to private players.
- In India, public sector units have a history of political interference through unionism. AI and IA have approximately 30,000 staff members, they are opposing privatization of airports. However major airports like Delhi, Mumbai, Hyderabad and Bangalore are managed by private Sectors but large staff of AI and IA is creating problems.
- In India, the process of privatization of airports and air services is very slow. The government is still in the learning mode of privatization in the early stages, hence the overall cost of whole process of privatization of airports and air services is increasing. The government should set up a nodal agency to control the overall process of the privatization of airports and air services.
- Shortage of the runways is also a big problem of the metro airport like Delhi and Mumbai. Apart of this, available runways cannot handle wide bodies' aircrafts like A-380. Parking bays are insufficient. Ground facilities are hardly sufficient to handle the current passenger and cargo volume. So all facilities at the airports should be tanned urgently with the increasing demand of this industry.
- Generally, air traffic jam is also a big problem at the metro airports in peak hours. It typically takes 10 to 15 minutes for any flight to land at Delhi and Mumbai airports. It enhances the hovering cost and wastage of precious fuel, the government should develop new runways at the metro airports.
- We do not have any policy on issued that pertain to safety and environment concerns. We also do not have the required regulations on these issues. Though government has issued several guidelines time to time in this regard but there is no concrete safety policy. It is suggested that government should framed a suitable and comprehensive safety and environment policy.

### Future Prospects

The Future of Indian Aviation Industry is bright. As already mentioned above, India is set to become one of the top five aviation markets by 2020. The latest report on civil aviation, reveals an all-round improvement in air traffic. The number of passengers as also the volume of goods and mails carried by airplanes during the period shows an appreciable improvement over those of the last decade. The Aviation sector is expected to witness huge surge in investments from private sector players. The number of aircraft is expected to touch 800 by 2020. The low penetration ratio (0.04 per capita/p.a) provides immense opportunity for investment in aviation sector.

The country is focusing on modernization of the aviation industry which involves construction of new airports and modernization of existing ones, airport connectivity infrastructure development, and modern air navigation system development and devising ways to reduce cost and yet provide modern aviation facilities at various small cities. This up gradation indicates the growing potential of this domain. With a huge no. of new air crafts being added and services being made available through a wider network, the employment opportunities also rise and so does the need for next generation aviation professionals. India is a prospective global centre for Maintenance, Repair, and Overhaul (MRO) and manufacturing because of its engineering workforce, world class engineering services, and research and development skills.

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