India's Aviation Sector

[Source: IE](#)

Why in News?

After ruling the Indian skies, IndiGo is now attempting to make a mark globally with non-stop, **long-haul, and low-cost flights** from Indian airports.

- However, the long-haul, low-cost airline model has been a challenge for many airlines, with numerous failures and few relatively stable and profitable operations.

What is the Long-haul, Low-cost Air Travel Model?

- **About:**
  - The long-haul, low-cost air travel model is an attempt by **low-cost carriers (LCCs)** to expand their operations **beyond short-haul domestic and regional routes** and offer non-stop, long-duration flights at lower fares.
    - This model aims to replicate the success of LCCs in the short-haul segment by applying similar cost-cutting strategies and business practices to long-haul operations.
- **Challenges:**
  - **Higher fuel costs for operating larger, wide-body aircraft** on long-haul routes.
    - Increased operating costs for wider aircraft, such as more crew, maintenance, and airport fees.
  - Difficulty in maintaining the rapid turnaround times and high aircraft utilisation levels that are critical to the LCC business model.
  - Balancing the need for passenger comfort and amenities on long flights with the low-cost carrier's focus on minimising costs.
  - Establishing a **viable network** and flight schedule that can sustain demand and profitability on long-haul, low-density routes.
  - Competition from established full-service carriers with stronger brand recognition and loyalty on long-haul international routes.
- **Successful Examples:**
  - A few long-haul LCCs like Scoot, Jetstar, and French Bee have managed to establish relatively stable and profitable operations.
  - Key strategies include offering a **hybrid product with some premium/business class amenities,** targeting underserved routes, and leveraging strong domestic/regional networks.

What is the Progress of India's Aviation Sector?

- **India's Aviation Boom:**
    - India has emerged as the **third-largest domestic aviation market in the world,** after the USA and China.
        - The industry has undergone a remarkable transformation, shedding its previous limitations and evolving into a vibrant and competitive sector.
    - Proactive policies and strategic initiatives by the government have catalysed the growth of the aviation sector, fostering a conducive environment for expansion and innovation.
- **Infrastructure Development:**
    - India's airport network has witnessed a remarkable transformation, doubling its operational airports from **74 in 2014 to 148 in April 2023,** facilitating increased air travel accessibility.
        - **Regional Connectivity Scheme-UDAN:**
            - The **Regional Connectivity Scheme–Ude Desh ka Aam Nagrik (RCS-UDAN)** was launched in 2016 to provide connectivity to unserved and underserved airports in the country.
            - The scheme aims **to revive existing airstrips and airports,** bringing essential air travel access to isolated communities and boosting regional economic development.
            - With **517 RCS routes operational, connecting 76 airports, UDAN has facilitated air travel for over 1.30 crore people,** promoting accessibility and economic growth
- **Passenger Growth:**
    - The aviation industry is experiencing a remarkable resurgence **post-Covid**, with a surge in passenger demand.
        - From January to September 2023, domestic airlines carried 112.86 million passengers, a **29.10% increase compared to the same period in 2022.**
        - International airlines carried 45.99 million passengers between January and September 2023, a **39.61% increase compared to the same period in 2022.**
- **Carbon Neutrality:**
    - The **Ministry of Civil Aviation (MoCA)** has taken initiatives to work towards carbon neutrality and achieving **net zero carbon emissions** at airports in the country.
        - Airport operators have been advised to **map carbon emissions** and work towards **carbon neutrality** and net zero emissions in a phased manner.
    - **Greenfield airports** are being encouraged to prioritise carbon neutrality and net zero emissions in their development plans.
        - Airports like Delhi, Mumbai, Hyderabad, and Bengaluru have achieved **Level 4+ ACI Accreditation and become carbon neutral.**
        - 66 Indian Airports are operating on 100% Green Energy.

What are the Challenges Facing India's Aviation Industry?

- **High Fuel Costs:**
    - Aircraft Turbine Fuel (ATF) expenses can represent **50-70% of an airline's operational costs** and import taxes add to the financial burden.
- **Dollar Dependency:**
    - Fluctuations in the **dollar rate impact profits as major expenses** like aircraft acquisition and maintenance are dollar-denominated.
- **Cutthroat Pricing:**
    - Airlines often engage in aggressive price competition to attract passengers, leading to thin profit margins amidst high operational costs.
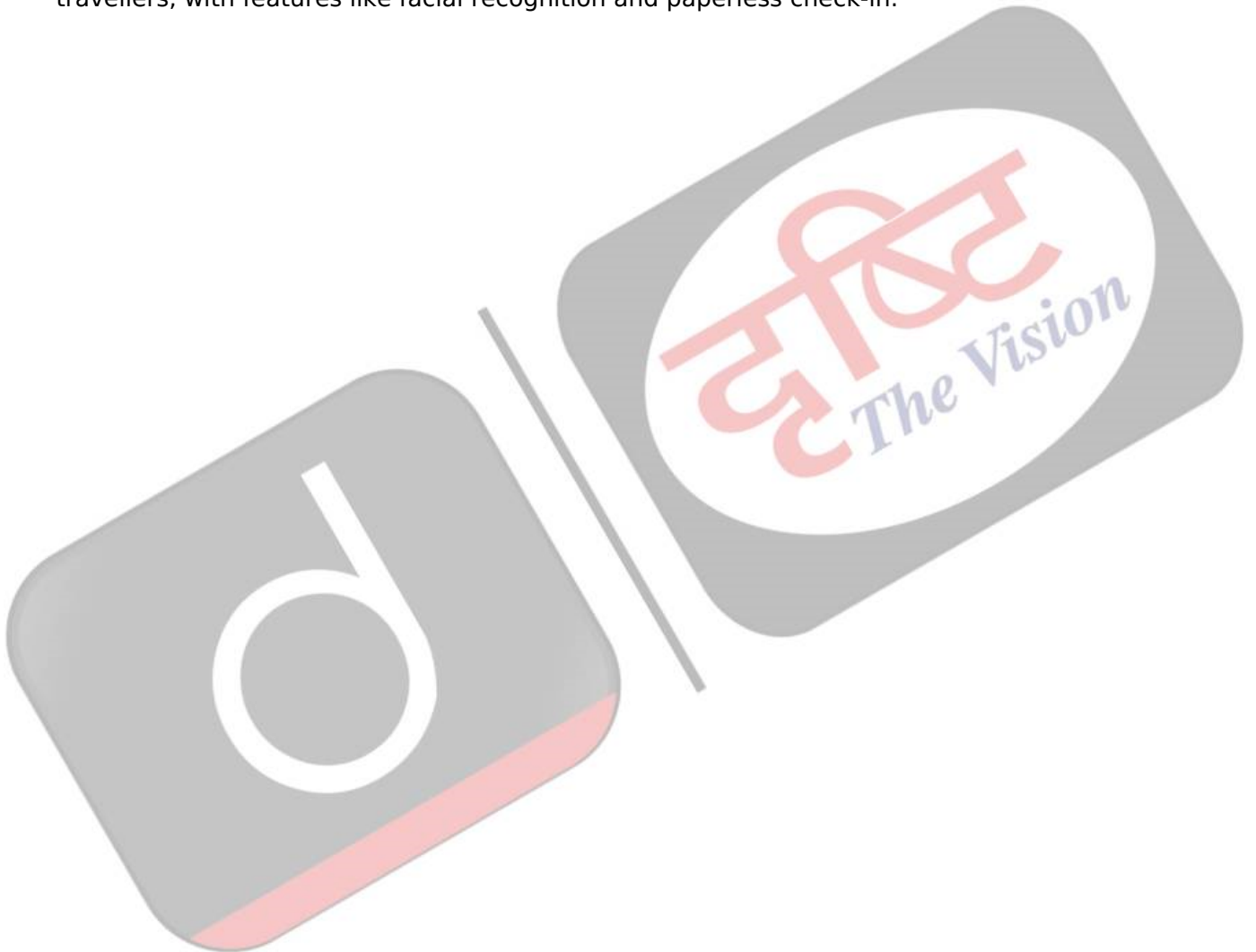- **Limited Competition**:
    - Currently, IndiGo and a resurgent Air India hold the majority share, possibly nearing 70% combined. This concentration of power can lead to:
        - **Limited Competition:** With fewer major players, there's a risk of reduced competition on routes, potentially leading to higher fares for consumers.
        - **Pricing Power:** The dominant airlines may have more leverage to influence ticket prices, especially if they coordinate strategies.

- **Grounded Fleet:**
    - A large portion (over a quarter) of Indian aeroplanes are grounded due to safety concerns and financial issues, hindering capacity.
- **Environmental Concerns:**
    - Pressure to reduce carbon emissions and adopt sustainable practices can add complexity to growth strategies.
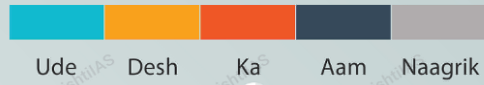
India's Initiatives Related to Aviation Industry

- **UDAN Scheme (Ude Desh ka Aam Nagrik).**
- **National Civil Aviation Policy, 2016**
- **Goods and Services Tax (GST)** rate reduced to 5% from 18% for domestic Maintenance, Repair and Overhaul (MRO) services.
- **Open Sky Agreement**
- Digi Yatra **for Seamless Travel:** This digital platform facilitates a contactless experience for air travellers, with features like facial recognition and paperless check-in.

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UDAN SCHEME

Ude	Desh	Ka	Aam	Naagrik

Ministry of Civil Aviation

2016

FEATURES:

- Connecting Small and Medium cities with big cities through air service

- Providing affordable, economically viable, and profitable air travel

- Extending financial incentives to selected airlines to encourage operations from unserved and under-served airports.

ABOUT:

- A Regional Connectivity Scheme (RCS)

- Launched in October 2016 and operational for a period of 10 years

- Formulated in Pursuance of the National Civil Aviation Policy (NCAP)-2016

- Udan 5.0 is the latest project.

BENEFITS:

- Democratisation of the Aviation Sector

- Employment Generation

- Boost to Tourism Sector

- Connecting smaller airports, special helicopters and sea plane routes.

• Lifeline UDAN:
Air transport of medical cargo and essential supplies across India at the time of the Covid-19.

• Krishi UDAN:
To assist farmers in transporting agricultural products

• International UDAN:
To connect India's smaller cities directly to some key foreign destinations.

Way Forward

- **Diversification of Fuel Sources:** Emulate initiatives to incorporate biofuels into the fuel mix, reducing dependence on traditional ATF and mitigating the impact of import taxes.
  - Implement **fuel hedging strategies** to manage the volatility of fuel prices, a practice used by many international airlines.
- **Ancillary Revenue Streams:** Develop ancillary revenue streams such as cargo services, in-flight sales, and premium services to bolster profits.
- **Competitive Pricing Strategies**: Utilise advanced yield management systems to optimise pricing and maintain profitability without engaging in detrimental price wars.
  - Strengthen customer loyalty programs to encourage repeat business and reduce the need for aggressive pricing tactics.
- **Regulatory Reforms:** Advocate for regulatory reforms that encourage new entrants and prevent monopolistic practices in the industry.
- **Route Rationalisation:** Encourage airlines to explore under-served routes, thereby increasing competition and offering more choices to consumers.
  - Consider **aircraft leasing options to maintain operational flexibility** and reduce financial burdens associated with owning a fleet.
- **Carbon Offset Programs:** Implement carbon offset programs like the **ICAO Carbon Emissions Calculator (ICEC)** to measure and mitigate the environmental impact.

Drishti Mains Question:

Q. Evaluate the progress of India's aviation sector, considering factors such as infrastructure development, passenger growth, and the impact of government policies.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q. Examine the development of Airports in India through joint ventures under Public–Private Partnership (PPP) model. What are the challenges faced by the authorities in this regard? **(2017)**