

# Soaring New Heights



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The National Civil Aviation Policy (NCAP- 2016) aims to implement radical changes driven by the ambitious plan of moving India's position to the top 3 in the world. The NCAP is very aspiring and ambitious policy. The Ministry of Civil Aviation (MoCA) has attempted to create an integrated eco-system that is likely to drive a significant growth of civil aviation sector making affordable air travel to common man. The Government aims to sell 30 crore air tickets per annum in the domestic sector by 2022 and hike the sale to 50 crore per year by 2027. Internationally, the government targets to sell 20 crore air tickets per year by 2027.

The important spin-off of this ambitious target is that the required infrastructure for handling this high traffic volume is also to be arranged including the most important aspect of airport capacity. Above all, air connectivity can provide the required impetus to the economic growth of the country. The regional

connectivity scheme under NCAP will connect India's remote unconnected regions, boost tourism, create jobs and stimulate the economy in tier II and III cities and this will be good for other sectors too. Subsectors like MRO, cargo, helicopters, general aviation and 'Make in India' will get a fillip with liberalised operational norms and tax breaks.

The policy aims to grant Special Economic Zone status for any aeronautical manufacturing activity. MoCA has also formulated policies for developing commercial and aero-related manufacturing and its eco-system in India as part of aeronautical Make in India program. The policy also proposed partnership with state governments in building airports at remote areas. All these will spur continued socio-economic growth across the country. We believe that the National Civil Aviation policy approved by the Ministry has the potential to take the sector to new heights and generate a new momentum in the sector.

## Infrastructural Requirement

The infrastructure requirement for the sector to tap the high potential in the aviation sector is huge. In order to arrive at the capacity requirement and investment requirement at airports, it is imperative to arrive at the forecasts of passenger and cargo throughput. The National Transport Development Policy Committee (NTDPC) of June 2012 issued by MoCA, gives an account of the passenger that is expected to be handled at Indian airports in the next 20 years using econometric analysis. As per this report, the passenger volume will reach 747.5 million by 2026-27 and 1,144 million by the year 2031-32. In the same way, the cargo throughput expected during this period is 19.7 MMT per annum.

Based on the above forecast the country needs at least 375 - 400 operational airports by 2026 - 27 to take the civil aviation sector to the next growth phase. We will also require large number

of aircrafts. USD 80 billion will be required for procuring new aircrafts and investment for airport infrastructure will be to the tune of USD 40 billion. Apart from airport developers, opportunities for investments are available for MROs, commercial lenders and cargo agents and ground handlers all these will also require additional investments. Huge infrastructure will be required to tap the high growth potential of Indian Aviation industry.

### **No frills Airports**

The growth of civil aviation in India has so far not been accompanied by a homogenous increase in air connectivity. Despite high growth of passenger traffic over the last few years, several Tier II and Tier III cities are unserved or underserved by the air carriers. Many estimates suggest that next generation of aviation growth in India would be triggered by regional airports in Tier II and Tier III towns. At present, there are about 450 used or unused or abandoned airports and airstrips spread all over the country. Efforts are required to undertake reviving these airports. Some states have started taking proactive measures to promote air connectivity in their states after understanding the significance of the socio-economic benefits that would bring to the state and region. These initiatives are largely for development of low-cost, no-frills airports.

This will have tremendous opportunities for industrial towns, mining centers, commercial hubs, large government office centers who can generate substantial outgoing passenger traffic. A perusal of the list of airports in India would show that a large number of airports are situated in places which have high tourism potential or have industrial or commercial clusters. They provide ideal locations for the development of regional low-cost



airports, which can contribute to the socio economic development of the areas. Further, several of these airports are only being occasionally used for some official VIP visits. The airstrips or airfields if developed into full-fledged airports, then the connectivity need of remote areas and hinterland can be properly addressed.

Further, the regional carriers can feed the legacy carriers and trunk routes so as to create a true hub and spoke model - thereby providing an environment that is conducive to code share and alliances, with better air connectivity throughout the country. This will usher in multiple socio-economic benefits to the country in general.

### **Opportunities**

The aviation sector gives fascinating opportunities to an array of industries such as airports, airlines, cargo, MRO, ground handling, ANS, retail business, real estate etc. The intent to fast track the sector development and harvest its multiplier effects on the economy and spurring investments is clearly visible in the National Civil Aviation Policy, which aims to become the third-largest aviation market by 2020 and largest by 2030.

We believe that the proposed policy will act as a catalyst not only to improve the air traffic flow among countries, regional or remote destinations and metro cities but also bring in significant socio economic benefits to the country. There are opportunities to develop new airports, expanding the existing airports and all connected sub-sectors of the aviation sector to catch up the passenger growth rate. There are greater opportunities for investment. Association of Private Airport Operators (APAO) as an industry body of 5 PPP Airports in the country is looking forward the opportunity to work with other stakeholders to fulfill the vision of the National Civil Aviation Policy to place India to achieve its vision of becoming the largest aviation market by 2030.

### **Projects in pipeline**

Airport modernization plans of GoI bank heavily on private participation. Total investment made by 5 PPP airports in the last 5 years was to the tune of USD 6 billion. An amount of USD 13 billion is planned for 12<sup>th</sup> five year plan, of which USD 10 billion is expected to be generated by the private sector. 35 non-metro airports have also been identified for modernization and



upgradation. India is also planning to set up 3 international major green-field airports at Navi Mumbai, Mopa (Goa) and Kannur (Kerala) in the near future, requiring approximately USD 5 billion. The bid process for development of green-field airports at Navi Mumbai (NMIA) and Goa (Mopa) are underway while the RFP for Bhogapuram International Airport near Vizag is expected shortly. In addition, states such as Andhra Pradesh are looking at developing low-cost, no-frills airports at Nellore and Kurnool. Once realised, these airports would become the gateways to air travel for the majority of the population thus making aviation more accessible to the masses. Except Kannur Airport all other projects are still in the initial stage.

### Challenges

There are several challenges faced by the airport developers at various stages such as during the bidding process, funding constraints, high taxation etc due to uncertainty and unpredictability on several critical issues. More importantly, there are inordinate delays in land acquisition; environmental clearances etc, which further delay projects. Many important proposals or decisions get shelved or drastically changed.

For example, there was a proposal to privatise 6 AAI airports and it made good progress in the initial stages through tender formalities / process for awarding the work of modernisation of these airports etc. This was, however, cancelled midway creating uncertainty in the future privatization process of these 6 Airport Authority of India (AAI) Airports. Major green-field airports are mostly expected to be set up via the PPP route requiring a significant and continuous investment. However, investors are losing confidence in the airport sector. It is, particularly, important to mention that with 2017 being the last year of the 12<sup>th</sup> Five Year Plan period, many projects which were expected to be commissioned during this plan period are yet to even start. Private players are also not getting adequate and fair returns on their investments, which will discourage attracting the much required private capital.

As per CAPA estimate, actual investment on airport related infrastructure is unlikely to cross USD 3 billion during the 12<sup>th</sup> plan period out of the projected USD 13 billion. Thankfully, there is a clarity in the NCAP now with regard to the Till issue wherein it has been decided to adopt Hybrid Till for all

airports in India. The Hybrid Till will attract the much required investments in the airport sector in coming years.

### Solutions to overcome these hurdles are:

- The best way to address these issues are that while framing of a model concession agreement, it must be transparent and clearly addressing upfront all such issues in the development of the airport including the risk allocation mitigation, project implementation, user fees, service quality etc. Such clarity will attract more investors into the airport sector.
- Aero tariff should be fixed prior to bidding to provide revenue certainty to the bidders.
- Concessionaire should be free to define the land use for commercial development to improve cash flows and project viability.
- Governance mechanism should be driven by board representation instead of multiple public authorities.
- Period of concession should be long enough to recover the investments. Performance of the concessionaire should be measured using pre-defined performance standards. Sovereign agencies providing services at the airport should be made accountable through SLAs.
- The issues and challenges in land acquisition, environmental clearances, and multi-modal connectivity to the airport must be addressed on priority basis.
- Single window clearance for all projects (which require clearances of more than one ministry).
- Fast-track dispute redressal mechanism to be institutionalised.

### Making PPP viable

The Government of India (GoI) has

taken a number of initiatives to open the sector for private participation in modernizing the existing or Brownfield Airports as well as setting up of new Greenfield Airports. Because of these liberalisations private participation has been allowed at Delhi and Mumbai brownfield airports and three new PPP greenfield airports have been set-up at Cochin, Hyderabad and Bangalore. These 5 PPP airports have shown the world that PPP is a successful and the best model to be followed for development of airport infrastructure in the country. These five PPP major airports have not only created world class infrastructure in the country but also have been adjudged as the best airports in the world in their respective categories. PPP has been a success both in terms of airport infrastructure and service quality. India's flagship airports at Delhi, Mumbai, Hyderabad and Bengaluru have been ranked consistently among the best in the world on service quality by leading global agencies like ACI and Skytrax.

Eventhough Public Private Partnership is an important approach for development of infrastructure in the country, there are number of issues which are critical for the growth of infrastructure development in most of the sectors. The government has to reform the existing PPP policy and its governance to improve the PPP model infrastructure development in the country. We appreciate the initiative taken by the government to revive PPP projects by appointing a committee under Vijay Kelkar, to look into these issues. The committee has now submitted its report on Revisiting and Revitalizing Public Private Partnership Model of infrastructure. The committee has come out with far reaching recommendations on reforms in PPP policy and its governance. The recommendations are:

### **No CAG Audit or application RTI or article 12 in the PPP Projects**

The Committee suggested that the laid down process would enable review only of government internal systems, and not that of SPVs, but SPVs would need to follow the best practices in corporate governance systems including those related to party transactions, financial disclosures etc as in the Companies Act, 2013

### **Protection of Private players**

The Committee feels strongly that the private sector must be protected against what have been called an Obsolescing Bargain-the loss of bargaining power over time by private player in PPPs-through the mechanisms like renegotiation of contracts, Government upper hand in bargaining and risk allocations mechanism etc and recommended for setting up of independent sector regulators.

### **Availability of long-term finance**

It is necessary to explore options for sourcing long-term capital at low cost. Towards this, the Committee recommends, encouraging the banks and financial institution to issue Deep Discount Bonds or Zero Coupon Bonds

(ZCB). These will not only lower debt servicing costs in an initial phase of project but also enable the authorities to charge lower user charges in initial years.

### **Notify PPP Policy as PPP Act**

MoF may develop and publish a national PPP Policy document. Ideally, such a policy document should be endorsed by the Parliament as a policy resolution to impart an authoritative framework for implementing executive agencies as well as to legislative and regulatory agencies charged with oversight responsibilities and recommended for enacting a PPP Law.

### **Infrastructure PPP Adjudication Tribunal (IPAT)**

An Infrastructure PPP Adjudication Tribunal (IPAT) chaired by a Judicial Member (former Judge SC/Chief Justice HC) with a technical or a financial member, where benches will be constituted by the chairperson as per needs of the matter in question.

### **National Facilitation Committee (NFC)**

An institutionalised mechanism like the National Facilitation Committee (NFC) to be constituted to ensure time bound



resolution of issues including getting timely clearances or approvals during implementation of projects for smooth running of such projects.

## Unified regulatory structure for Airport and clarity in Till regulation

PPP Airports to be encouraged wherever viable in Greenfield and Brownfield projects, have policy that addresses potential demand for airport services in the country, notify a unified regulatory structure, clarity in delineation of Till policy for calculation of aeronautical and other cash flows.

The recommendations of Kelkar committee have given a clear direction and roadmap for PPP model infrastructure development for the country. A successful and growing stream of PPPs in infrastructure will go a long way in accelerating the country's developmental process. The success entirely depends on the execution of these important recommendations within a specified timeline.

## Sector on Growth Path

Indian aviation sector is witnessing an uncertain phase on account of multiple factors. The following policy changes are expected from the Government for bringing the sector on the growth path.

- A consistent forward looking and investor friendly regulatory regime

is critical if the sector has to attract private participation for airport infrastructure development. This is not available today. Viability of the airport is not ensured by the policy makers and regulator while formalising policies and regulation for the sector. A reasonable rate of return to be ensured to the investors.

- The applicable Till regime and the regulatory philosophy adopted by the regulator is not attracting investments to the sector. This is not a healthy sign for the growth of the sector. We are happy to note that the Ministry has showed its intention to attract investments by deciding for a 30 percent hybrid till regime and have notified it in the NCAP 2016. The Regulator has to implement it both in letter and spirit.
- The prevailing tax regime is also not favourable towards new investments. Even sovereign functions in the private airports are subject to high taxes, which affects the growth of the sector.
- There are serious issues and challenges in land acquisition, environmental clearances, providing multi-modal connectivity to airports etc. which must be addressed

on priority basis. An integrated approach must be adopted in such issues, which require clearance of more than one ministry.

- e) Hub policy which is pending for long is not yet finalised. All strategically located major PPP airports must be converted into aviation hubs. This will have multiple socio-economic benefits, giving rise to tourism, and reduce operational costs in the long-run. Establishment of an Hub and Spoke network model can utilise airports limited resources in a more efficient manner, thereby making the Indian Airports compete with International Hubs in the region. The airlines and passengers will also have multiple options by opting for a more efficient Hub to reach a particular destination. Airlines, in particular, would be benefited with higher loads and better route capacity utilizations. ■



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