CHAPTER – III

TRENDS AND GROWTH OF AVIATION INDUSTRY IN INDIA

3.1 INTRODUCTION

Indian civil aviation industry is among the top ten in the world, with a size of $16 billion. Domestic airlines carried 55.06 million passengers in January-October 2014 period as compared to 50.7 million a year ago (IBEF 2014). The air transport has attracted foreign direct investment (FDI) of $ 456.84 million from April 2000 to July 2013 (Indian Business, 2015). Indian aviation industry handles 121 million domestic and 41 million international passengers. More than 85 international airlines operate to India and five domestic Indian carriers connect to over 40 countries (Indian Business, 2015). Indian aviation industry promises huge growth potential due to large and growing middle class population, favorable demographics, rapid economic growth, higher disposable incomes, rising aspirations of the middle class, and overall low penetration levels. The first commercial flight in India took-off in, 1911. Nine airlines existed before 1953 including Indian Airlines, and Air India. In 1953, the airlines were nationalized and merged into Indian Airlines. In 1986, private players were allowed to operate as air taxis. In 2003, Air Deccan started operation as India first low cost carrier (LCC). In 2007, the industry witnessed consolidation when Jet acquired Sahara and Kingfisher acquired Air Deccan (ICRA, 2012).
3.2 Aviation Industry

Humanity’s desire to fly like birds dates to the first time man observed birds soaring freely through space of the infinite highway of the air, an observation illustrated in the legendary stories of daedalus and Icarus in greek mythology, and the Vimanas in Indian mythology. In ancient times, humans gained basic aerodynamic knowledge by throwing objects like stones and boomerangs and observing birds. Much of the focus of early research was on imitating birds, but through trial and error, balloons, sirships, gliders and eventually powered aircraft and other types of flying machines were invented.

3.2.1 Airports

An airport is a location where aircraft such as fixed-wing aircraft, helicopters, and blimps take off and land. Aircraft may be stored or maintained at an airport. An airport consists of at least one surface such as a runway for a plane to take off and land, a helipad, or water for take offs and landings and often includes buildings such as control towers, hangers and terminal buildings.

Boom in Airport construction came during 1960s with the increase in jet aircraft traffic. Composite airframes and quieter more efficient engines have become available. Runways were extended out to 3 km. The fields were constructed out of reinforced concrete using a slip-form machine that produces a continual slab with no disruptions along the length. Modern landing fields are thickest in the area where the plane touches down in order to support the force of the landing gear.
touching down. Runways are constructed as smooth and level as possible using measuring devices to correct for variations in heights. To manage the various activities at the airports an airport management system is developed by the concerned authorities.

### 3.2.2 Airport Management

On the basis of the activities performed at the airports, it is divided into landside and airside areas. Landside areas include check-in ticketing desks, vehicle parking lots, public transportation train stations, tank farms and approach roads. The landside area cannot be considered as the secure area as the common public too can enter this area including those who are not travelling.

Airside area is generally beyond security and or passport control. It includes all areas accessible only to aircraft, airport staff and passengers holding valid boarding cards for imminent travel, including runways, taxiways, ramps and tank farms. If anyone has to move in from landside areas to airside areas he has to undergo through various required security checks, so we may call airside area as the sterile area. Commercial flights passengers have to purchase tickets; pass through different level security checks ups and then can board the aircraft through gates. In most airports the airside area includes the duty free shops ad often the lounges.
The large open areas for the gathering or passage of people, where mass can wait and get access to their aircrafts are typically called concourses, although this term is often used interchangeably with terminal.

The area next to a terminal where aircraft park to load and unload passengers and baggage is termed as a ramp. Areas where aircrafts can be parked during non-operational time are termed as “Aprons”

Depending on air traffic volume and economic situation airports can be controlled or un-controlled, i.e. an airport can/cannot have air traffic control unit. Sometimes controlled or towered airports may operate as uncontrolled one during off hours, typically during night.

Many international airports have their control units located on site itself because of the high traffic volume, capacity and busy airspace. The airports providing international connectivity have to follow certain custom and immigration procedures. However some countries which are having good relation which allow them to travel between are not imposing such procedures. International flights due to various reasons needs high level security check-ups. For making safer air travelling nowadays many countries are adopting same level of security for domestic as well as international communication.

Expanding the facilities to the customers and passengers at airport premises, many airports are having on-site hotels constructed nearby to the
terminal building. And the hotels are being popular as they are providing comfort to the transient passengers and also making easy accessibility to the terminal building. This trend is being popular as a business policy as many airline service providers are having agreements with the airport hotels for providing overnight loading arrangements for the displaced passengers.

It takes a large number of people working in co-ordination with each other to make any single aircraft move in airspace, leave the land and come back to land with proper safety. And at large airports where the numbers of flights are huge in small time this co-ordination eventually become extraordinary complex and completely invisible to the passengers.

Aviation sector is not limited to any one country like road or rail transport system. It provides connectivity between various countries apart from the domestic connectivity. To streamline the rules and regulation of aviation sector there is an international body which regulates and controls international civil aviation sector. The name of this organization is International Civil Aviation Organization, which is called ICAO in short.

3.2.3 International Civil Aviation Organization (ICAO)

A specialized agency of the United Nations, the International Civil Aviation Organization (ICAO) was created in 1944 to promote the safe and orderly development of international civil aviation throughout the world. It sets standards and regulations necessary for aviation safety, security, efficiency and
regularity, as well as for aviation environmental protection. The organisation serves as the forum for cooperation in all fields of civil aviation among its 190 members states.

ICAO works in close co-operation with other members of the United Nations family such as the World Meteorological Organizational, the International Telecommunication Union, the Universal Postal Union, the World Health Organization and the International Maritime Organization. Non-governmental organizations which also participate in ICAO’s work include the International Air Transport Association, the Airports Council International, the International Federation of Air Line Pilots Association, and the International Council of Aircraft Owner and Pilot Associations.

3.2.4 Civil Aviation in India

In India it is Ministry of Civil Aviation (MOCA), which is the apex body or controller of all the functions in the field of civil aviation in India. The Ministry of Civil Aviation is the nodal Ministry responsible for the formulation of national policies and programs for development and regulation of Civil Aviation and for devising and implementing schemes for the orderly growth and expansion of civil air transport. Its functions also extend to overseeing airport facilities, air traffic services and carriage of passengers and goods by air. The Ministry also administers implementation of the Aircraft Act, 1934 and is administrative responsible for the commission of Railways Safety. Following institutions/bodies come under the control of Ministry of Civil Aviation:
3.2.5 Functions of Director General of Civil Aviation

Registration of civil aircraft, Formulation of standards of airworthiness for civil aircraft registered in India and grant of certificates of airworthiness to such aircraft; Licensing of air traffic controllers, Certification of aerodromes and CNS/ATM facilities, Maintaining a check on the proficiency of flight crew, and also of other operational personnel such as flight dispatchers and cabin crew, granting of Air Operators’s Certificates to Indian carriers and regulation of air transport services operating to/from/within/over scheduled and non scheduled flights of such operators, Conducting investigation into accidents/incidents and taking accident prevention measures including formulation of implementation of Safety Aviation Management Programs. Supervision of the institutes/cubs/schools engaged in flying training including simulator training, AME training or any other training related with aviation, with a view to ensuring a high quality of training, Granting approval to aircraft maintenance, repair and manufacturing organisations and their continued oversight; Promoting indigenous design and manufacture of aircraft and aircraft components by acting as a catalytic agent.

3.2.6 Bureau of Civil Aviation Security

BCAS is the regulatory for civil aviation security in India. It is headed by an officer of the rank of Director General of Police and is designated as Commissioner of Security (Civil Aviation).
3.3 Airports Authority of India

Prior to 1971, the Director General of Civil Aviation was entrusted with the responsibility not only of regulatory functions relating to civil aviation but of construction and management of airports, air traffic control and air space management in the country.

Considering the need for heavy investment and operational flexibility required for construction and management of large airports, the International Airports Authority of India (IAAI) was constituted as an autonomous body under the International Airport Authority act, 1971. Four international airports, namely, Delhi, Mumbai, Madras and Kolkata were transferred to IAAI. In 1985, it was felt that a similar treatment was required for domestic airports and air traffic control and related services. Consequently, National Airports Authority (NAA) was constituted under the National Airport Authority act, 1985.

International airports were put to more intensive use and generated substantial revenues which accrued to IAAI, revenues of NAA were much less buoyant because a number of its airports did not have any commercial air service whatsoever, while many others have only infrequent operations. NAA was, therefore, not able to generate adequate resources to meet the requirements of development and modernization. To overcome this handicap and provide for closer integration in the management of airports and air traffic services in the country, it had been found necessary to merge IAAI and NAA.
Airports Authority of India (AAI) was constituted by an Act of Parliament and came into being on 1st April 1995 by merging erstwhile National Airports Authority and International Airports Authority of India. The merger brought into existence a single organization entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and air space in the country.

Airport Authority of India (AAI) manage 125 Airports, which include 11 International Airports, 08 Customs Airports, 81 Domestic Airports and 25 Civil Enclaves at Defence Airfields. AAI also provides Air Traffic Management Services (ATMS) over entire Indian Air Space and adjoining oceanic areas with ground installations at all Airports and 25 other locations to ensure safety of Aircraft operations.

The Airports at Ahmeedabad, Amristar, Calicut, Guwahati, Jaipur, Triadrum, Kolkata & Chennai are today International Airports open to operations even by Foreign International Airlines. Besides, the international flights, National flag carriers operate from Coimbatore, Tiruchirappali, Varanasi, and Gaya Airports too. Tourist charters now touch Agra, Coimbatore, Jaipur, Lucknow, Patna Airports etc.

AAI has entered into joint venture at Mumbai, Delhi, Hyderabad, Bangalore and Nagpur Airports to upgrade these Airports and emulate the world standards.
3.3.1 ORGANISATION STRUCTURE:

Following is the organizational structure of Airports Authority of India.
Above diagram shows that the Chairman is the overall administrative head of Airports Authority of India. Airport Authority of India’s Board headed by Chairman and there are ten other Members in it. Out of ten, five members are whole time and five members are part time members. Part time members are responsible for making policy decisions only along with whole time members. All the members are responsible for attending board meetings and making policy decisions. Part time members are not involved in day-to-day functioning of Airports Authority of India. Day-to-day functioning of department is done by whole time members. Whole time members are: (1) Member (Aeronautical Navigation Services) (2) Member (Finance) (3) Member (Human Resource) (4) Member (Operation) (5) Member (Planning).

Apart from above whole time member a Chief vigilance Officer, who is normally an IAS or IPS, is deputed by central government and reports to Chiarmman and Chief Vigilance Commissioner, Government of India. Chairman is also assisted by one company secretary who advises him on corporate affairs and company matters. Various departments of Airport Authority of India work under any one Member out of five whole time members, except aviation safety department which directly reports to Chairman. Chairman reports to Ministry of Civil Aviation, Government of India.
3.3.2 Airports Authority of India: form of Business Organization

There are different kinds of business organizations—small or large, industrial or trading, privately owned or government owned existing in the country. These organizations affect our daily economic life and therefore become part of the Indian economy. The government of India has opted for a mixed economy where both private and government enterprises are allowed to operate. The private sector consists of business owned by individuals or a group of individuals. The public sector consists of various organizations owned and managed by the government. These organizations may either be partly or wholly owned by the central or state government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament. The government in its industrial policy resolutions, from time-to-time, defines the area of activities in which the private sector and public sector are allowed to operate. In the Industrial Policy Resolution 1948, the Government of India had specified the approach towards the development of the industrial sector. The roles of the private and public sector were clearly defined and the government through various Acts and Regulations was overseeing the economic activities of both the private and public sector. The industrial policy resolution, 1956 had also laid down certain objectives for the public sector to follow so as to accelerate the rate of growth and industrialization. The public sector was given a lot of importance but at the same time mutual dependency of public and private sectors was emphasized. The 1991
industrial policy was radically different from all the earlier policies where the government was deliberating disinvestment of public sector and allowing greater freedom to the private sector. At the same time, foreign direct investment was invited from business houses outside India. Thus, multinational corporations or global enterprises which operate in more than one country gainer entry into the Indian economy.

The statutory corporations, which are public enterprises brought into existence by a special act of the parliament. The Act defines its powers and functions, rules and regulations to govern its employees and relationship with government departments.

This is a corporate body created by the legislature with defined powers and functions and is financially independent with a clear control over specified areas or a specified area or a particular type of commercial activity. It is a corporate person and has the capacity of acting in its own name. Statutory corporations therefore have the power of the government and considerable amount of operating flexibility of private enterprises.

3.3.3 Functioning of an Airport

Functions which are governed by regulatory authorities and of mandatory nature are normally directly related with aviation operations and non-mandatory function are normally related with passenger facilitations. All the functions at an airport can be divided into airside functions and city side functions.
3.3.4.1 Air Side Functions

Air traffic control, Ground control, Tower control
Navigational aids

3.3.4.2 Guidance signs

Location signs, Direction/Runway Exit signs

3.3.4.3 Mandatory Signs

Runway signs, Frequency change signs, Holding position signs, Lighting, Wind indicators, Safety management.

3.3.4.4 City Side Functions

Parking, Taxi services, Entry tickets, Air ticket bookings, Check-in facilities, Currency exchange, Internet, Restaurants, Rest rooms, Toilets, Air-conditioning, X-ray, Baggage claim, Drinking water, Shopping canter, Flight information display systems, Public addressing system, Medical facilities, Child care.

The industry has growth potential due to growth-oriented policies of BJP government led by Mr. Narendra Modi. Indian aviation market is expected to be third largest in the world (Indian Business, 2015). The untapped potential presents an opportunity for the industry to enhance passenger traffic. The air traffic density in India is just 72, as compared to 282 in China and 2896 in USA (IBEF, 2014). The government has allowed 49% FDI by foreign airlines in the sector. The government plans to build 17 new airports in 12th five-year plan. To enhance the
availability of skilled manpower, government is planning to establish an aviation university (Indian Business, 2015). The figure-1 shows the domestic market share of airlines. Indigo leads in the market share.

As shown in figure 2, total aircraft movement was 1.48 million in FY13. The figure 3 shows that passenger traffic 154.5 million in FY14.
3.4 Private Sector Airlines

3.4.1 Indigo

Indigo is the only Indian carrier running in profits. The company registered sales of Rs. 11,117 crore for FY 2014, a growth of 11.7% as compared to FY2013. The net profit was Rs. 317 crore. The company has registered profit for sixth consecutive year (Sanjai, 2014).

IndiGo has performed well in terms of load factor (it carried 84 million passengers until Oct 2014, which is one third of all domestic passengers), revenues and profits.

Indigo has been able to maintain its reputation on punctuality. The company has used a digital data link system called ACARS, to transmit messages between aircraft and ground stations via radio or satellite. The load factor has been
better than competitors have. Use of single type of aircrafts has reduces maintenance cost. Thus, simple but effective operational focus has been useful for the company for smooth operations and cost savings. The focus on efficiency has allowed company to capture higher market share with lesser number of aircrafts. Indigo has 57 planes as compared to 101 with Jet Airways and 148 with Air India (Prabhakar, 2012).

The culture of simplicity flows down from the top bosses. Indigo President Mr. Aditya Ghosh himself drove in a Wagon R along with Indigo promoter Rahul Bhatia, while other airlines executives came in swank chauffeur-driven cars. Indigo does not have large cars. The company has preferred not to offer frequent flier programmes, airport lounges, special check-in counters for a particular class of passengers and TV screens on board (Prabhakar, 2012).

The focus of company is to do one thing and do it well. The airline projects the advantages as one type of airplane (Airbus 320):

- One type of fare (low),
- One type of customer service (professional),
- One way to deal with delays and cancellations (honesty) (goindigo.in, 2015).

The company is planning to come up with an Initial Public Offering (IPO). The company has appointed leading investment banks, Morgan Stanley, JPMorgan,
Citibank, Standard Chartered, Kotak Mahindra Bank, Barclays and UBS for IPO.

3.4.2 Spicejet

The company has debt of Rs 1,738 crore, cash balance of Rs. 5 crore, net worth turned negative at Rs. 1019 crore. It was reported in parliament in July that SpiceJet has not paid Rs. 110 crore airport usage charges to the Airport Authority of India (Narasimhan, 2014).

The financial crisis was reflected in the news reports about failure of the company to deposit the tax deducted from employee’s salary and that the employees were not provided form 16. It was reported that the promoter Mr. Maran was planning to offload his 53.48% stake in the airline. The cash strapped airline-suffered decline of 17.5% in its stock. The company denied any such plan of Mr. Maran to offload his stake. Sanjiv Kapoor, COO of the company wrote to the employees —SpiceJet is no Kingfisher— to contradict such news articles (Narasimhan, 2014).

The company has dropped at least six destinations since November 2013 to rationalize destinations to improve operational performance. The uncertainty about financial feasibility of the airline also affects the employee morale. The company spokesperson informed that their internal survey reveals that 90% of staff believes airline is moving in the right direction.
3.4.3 JET Airways

Mr. Naresh Goyal launched jet Airways in 1993. Jet borrowed $800 million to finance new aircrafts. The airline started international flights by focusing on nearby destinations in Asia. Later it acquired Air Sahara in 2007 for Rs. 1450 crore. The company has domestic market share of 22% (Sanjai, 2014).

After buying Sahara, Jet Airways started facing financial issues. To optimize business operations Jet Airways sacked 1900 employees in October 2008, after operational tie up with Kingfisher. After media outcry and pressure from political establishments, the Chairman Mr. Naresh Goyal has to reinstate the sacked employees, citing the reason that he was not aware of these sackings. It also highlighted the lack of possible repercussions by the top management, coordination and communication, poor HR management in the company (Mehra, 2011).

The employees were sacked without notice. The sacking and reinstatement episode led to a feeling of insecurity among pilots and they formed a union; National Aviators Guild (NAG). Soon after the formation of NAG, two of the senior pilots were terminated without assigning any reasons. Pilots reacted and NAG called for strike and went on mass leave. Jet management took stay order from Bombay High Court, refraining pilots from strike. The discussions between management and union failed. The union was adamant on reinstatement of sacked pilots. The operational fall out of the strike was cancellation of 700 flights.
affecting 28000 passengers. Annoyed with the pilots Mr. Naresh Goyal referred to them as terrorists who were holding the country for ransom, and indicated that he would bring foreign pilots to manage the situation. Jet management used high profile lawyers to obtain a stay order on the strike. NAG filed a petition in Chennai high court against hiring foreign pilots by Jet Airways.

The management set up a crisis center to manage the situation. The crisis center reworked the flight schedules as an attempt to control the situation. The management also adjusted the passengers on flights of other airlines and refunded the airfare. The customers were updated about the details of flights cancelled and operational through SMS updates. The decision of management not to take back the two sacked pilots costed Rs. 15 crore daily. The management than agreed to take back the sacked pilots on the condition that the pilots will dissolve the union. This was not accepted by NAG. In the next round of negotiations, management agreed to take back the pilots, with a condition that pilots should reconsider about significance of union. A grievance committee was formed comprising of members of pilot community and administration (Mehra, 2011).

The company registered loses for the consecutive seventh year in FY 2014. It registered loss of Rs. 3,667 crore that is seven times the loss in previous year at Rs. 485.5 crore.
3.4.4 Kingfisher Airlines

The Airline was grounded in October 2012 and the flying permit was cancelled in December 2012. The court has allowed banks to take possession of property as part of recovery process. As part of recovery process, SBI consortium took possession of Kingfisher house, estimated to be worth Rs. 100 crore. The banks have outstanding loans of Rs. 6800 crore on Kingfisher Airlines (The Times of India, 2015).

United Bank of India, declared Mr. Vijay Malaya a willful defaulter in September 2014, according to a decision taken by Grievance Redressed Committee (GRC). Apart from Mr. Malaya, directors Ravi Nedungadi, Anil Kumar Ganguly and Subash Gupte were also declared willful defaulters. UBI has dues of Rs. 350 crore on Kingfisher.

The demand of legal representatives before the GRC was turned down by Calcutta High Court. Mr. Malaya commented that they making me a bakra (fall guy) because they want to set an example for other defaulters. Let them prove me a will fulde faulter after hearing me out. Then I have recourse to law. What they have done is unsustainable. There is natural justice to be followed (Dhamija, Kurian, 2014).

3.5 Challenges Faced by Indian Aviation Industry

Airline industry is suffering from huge debt burden. The industry has a debt of $15.83 billion (live mint, 2014).
Airline industry is not able to generate profits and is suffering from losses. The industry has lost about $10.6 billion from 2007-2014 (Live Mint, 2014). According to the Centre for Asia Pacific Aviation, the industry is expected to record losses of $1.4 billion in financial year 204-15.

High airport charges: Airport charges contribute 20% for long distance and 30% for short distance air tickets (Gopinath, 2014).

High engineering charges for maintenance: The maintenance repair and overhaul (MRO) charges are high, so airlines prefer to go to Abu Dhabi, Jordan, Singapore for MRO. The increased MRO charge is passed on to passengers.

Policy paralysis: The successive governments have failed to frame a policy with a long-term vision for airline industry. The airline industry has been left to fend for itself and serve the elite class in select metros. The airline industry can be developed to utilize the trained pool of technicians and engineers to create opportunities for manufacturing, MRO, cargo, training and many other allied activities. Airline industry should be viewed as a tool of economic growth and job creation.

Low customer base: The customer base is not expanding rapidly to enhance the operational profits.

Poor regulation: The industry does not provided level playing field for a new comer due to poor regulation. The monopoly of public sector companies has
now been replaced by cartel formation of private companies. The procedures are complex and cumbersome. The DGCA is supposed to support the development of industry, provide supportive policy framework and look after the safety and concern of passengers. However, DGCA works with a traditional government servant mentality. The staff is untrained and demoralized (Gopinath, 2014).

Poor status of airports: The government has not allowed competition in airports. Many international destinations have followed policy of more than one airport. London has five, New York has four, Hong Kong has four more international airports within 150 km radius. On the other hand, in India, Hyderabad and Bangalore airports have been closed. 75% of traffic comes from four major airports controlled by two firms (Gopinath, 2014).

Financial stress may affect the safety of passengers, as airlines lower their maintenance budgets. The audit report of DDGCA has highlighted lack of spare parts as serious lacunae for maintenance of the aircrafts comprising the safety of the passengers. It has been that airlines are misusing category C defect, where an aircraft can fly with a defect for 10 days. Ranganathan commented that the airlines remove the defective part on tenth day and put it in some other flight. The defective part is rolled over again to some other aircraft and this cycle continues (live mint, 2014).

High price of ATF as compared to prices at international level: ATF prices in India are highest globally and 60-70% higher than neighboring hub like Kuala
Lumpur, Bangkok, Hong Kong and Singapore (Sinha, 2014). Value added tax on ATF significantly affects the operating profits.

3.5.1 Rupee Depreciation Affects the Airline Industry Badly

Complex tax structure for ATF: The pricing of ATF does not reflect the international crude oil prices. Oil marketing companies fix the price by adding many other charges. The public sector oil companies seem to have made a cartel to fix the rates for airline companies, by abusing their monopoly.

3.5.2 Rationalize Tax Structure for Fuel

Allow private oil companies to supply fuel to airline companies. The competition will benefit the airline industry and the operational cost will come down.

Enhance the responsiveness of the DGCA to industry needs by appointing experts and trained staff. Develop long-term policy to support development of the industry without compromising safety of passengers.

Promote new tourist destination to foreign tourists. The flow of foreign tourists has been restricted to only few well-known destinations. The state and central government should identify the new destination with potential to attract tourist and develop the infrastructure of these cities and connectivity by air and road to attract foreign tourists.
Reduce MRO charges and create competition. This will not only lead to lower operational cost but also create job opportunities for engineers. The availability of skilled manpower can be used as a resource to project India as hub for MRO outsourcing for airlines globally.

Create low cost, no frills airports to enhance the customer base and increase air traffic.

Allow competition in domestic and international flights by new players.

Strengthen the equity base of the airline companies. The airlines should attract investors to enhance the equity base.

Improve cost effectiveness. The wasteful expenditure of the airlines should be eliminated.

Encourage foreign direct investment (FDI) in aviation sector.

Better management of airlines. The neglect of employees by the top management, wasteful expenditures, ignoring needs of pilots and crew members, high degree of leverage indicate that the government policies and tax structure is not the only reason for losses of airlines but poor management is also a cause of concern. Adopting financial discipline and treating employees with dignity and adopting proactive measures for improving cost efficiency and enhancing equity base will go a long way to make the airlines profitable.
3.5.3. FDI in Indian Aviation Industry

The Indian civil aviation industry is on a high growth trajectory. India has a vision of becoming the third largest aviation market by 2020. The civil aviation industry in India has ushered in a new era of expansion driven by factors such as low-cost carriers (LCC), modern airports, foreign direct investments (FDI) in domestic airlines, cutting edge information technology (IT) interventions and a growing emphasis on regional connectivity. Simply going by the market size, the Indian civil aviation industry is amongst the top 10 in the world with a size of around $16 billion.

In India, air traffic in terms of aircraft movement and passenger traffic has increased during the last three years. The total aircraft movements and passengers have registered a compounded annual growth rate (CAGR) of 3.3 per cent and 5.6 per cent respectively during FY11 to FY14. In the April-May period of the current financial year, aircraft movements and passengers have increased by 5 per cent each over traffic handled during the corresponding period of FY14. The freight traffic during April-May, FY15, also grew by 9.9 per cent over traffic handled during the same period of the last fiscal.

Airports Authority of India (AAI) has estimated that aircraft movements, passengers and freight at all Indian airports to grow at the rate of 4.2 per cent, 5.3 per cent and 5 per cent, respectively, for the next five years. Moreover, two new airlines are likely to enter into the industry in FY15. One is AirAsia's joint venture
with the Tatas, a low-cost carrier which began in June, 2014. The other, a full-service carrier to be formed separately by the Tatas and Singapore Airlines (SIA), which is likely to begin in the fourth quarter of 2014.

India's domestic air traffic grew at a record pace of over 26 per cent in September compared to the same month last year with low air fares stimulating the travel demand. International Air Transport Association attributed this growth, which was several times that of 7.6 per cent recorded in August, to market stimulation measures by the Indian carriers which continued to offer low fares on the domestic sectors. Whereas previous improvements in growth rates potentially were attributable to revived confidence over the new business-supportive government, the strong increase in September was owing to market stimulation measures introduced by carriers.

On international air travel, the Asia Pacific airlines reported a demand growth of 4.8 per cent compared to a year ago. Although this is a weaker rise than August, the recent trend has been positive and reflects better demand conditions in the region, including stronger trade activity that encourages business travel.

Jet fuel or ATF accounts for over forty per cent of an Indian carrier's operating cost, compared to 20-25 per cent globally. Ad valorem taxes of 20-29 per cent are making domestic airlines shell out nearly 52 per cent more for the fuel compared to the average global price. The international airlines pay nearly 16 per cent more than the global average as they are exempt from state-level taxes, while
Indian airlines are paying 50 per cent more for aviation turbine fuel here than the price in West Asian and the European markets.

Meanwhile, Aviation Turbine Fuel (ATF) rates were cut by a steep 7.3 per cent on November 1, 2014 by Rs 4,987.7 per kilolitre, or 7.3 per cent, to Rs 62,537.93 per kilolitre in Delhi. This is the fourth straight reduction in prices since August on back of falling international oil prices, bringing relief to airlines. The oil companies have also lowered retail petrol and diesel prices as international crude oil prices are hovering near $85 per dollar level.

Domestic capacity is expected to grow between 8-10% in FY15 and will largely be driven by IndiGo and start-up carriers. IndiGo is expected to deploy six A320s in the domestic market between April 2014 and March 2015, which will take its fleet size to 85. AirAsia India, which was launched with one A320 in June-
2014, is likely to reach a fleet size of five to six aircraft by March-2015. The Tata Sons-Singapore airlines JV, Vistara, may have about five aircraft in operation by the end of FY2015. However, the final number of aircraft may vary as AirAsia India's plans are subject to change, while Vistara's growth is dependent on the timing of its launch.

3.5.4 Indian Carriers to Pursue Expansion on International Routes

Jet Airways will be the fastest growing Indian international carrier and could expand capacity by 10-12%. Most of the growth will come from connecting non-metro Indian cities with Abu Dhabi to support the integrated network with Etihad. The increasing focus on the Abu Dhabi hub may distract from turning around domestic operations. Moreover, Jet Airways has to hold its plan to launch daily services to New York Newark and Chicago via Abu Dhabi until India restores its Category I status with the US FAA. Meanwhile, Air India's international expansion has primarily been in Europe. Last year, Air India launched Birmingham and this year it has added Milan, Rome and Moscow to its network, with Amsterdam, Munich, Madrid and Barcelona expected in the coming months. A new triangular route to Sydney and Melbourne has been performing below expectations due to the high fuel costs on the long sectors and frequencies may be reduced. However, operations to London, Paris and Frankfurt have resulted in an improvement in route economics as the carrier transitions from 777 to 787 equipment.
3.5.5 Lots of Startups Queuing to Grab Indian Aviation Pie

Six start-up airline's projects have received No Objection Certificates (NOC) in August-2014 and all are planning to launch by 3Q2016. There are at least a further four or five airlines at the business planning stage which are yet to apply for a licence. If all of the recent and planned new entrants materialise, India's aviation sector is likely to have significant over-capacity in the next 12-18 months. These six startup airlines -- including AirAsia India and Vistara -- could deploy up to 70-75 aircraft by the end of 2016. The incumbents are expected to greet the new entrants with very aggressive pricing and capacity deployment as a result of which the start-ups will need to ensure they are sufficiently capitalised to withstand the competitive response.

3.5.6 Ancillary Revenues Likely to be a Key Focus for LCCs

So far Indian carriers have treaded softly with respect to unbundling, partly because of regulatory restrictions and partly due to a reluctance to make the first move. But strong ancillary revenues will be necessary to support a low base fare pricing strategy. AirAsia India tried to lead the way when it launched in June-2014 by removing the free baggage allowance. However, its experiment was short lived as the Directorate General of Civil Aviation (DGCA) stepped in and stated that a 15kg allowance was mandatory for all passengers. Despite this setback, it is anticipated that regulations will be eased significantly over the next few months, with the DGCA expected to take a more liberal approach towards ancillary
services. By the end of FY2015, LCCs are likely to be generating ancillary revenue right across the value chain.

India's downgrade to Category II by the FAA: With a new Director General in place at the Directorate General of Civil Aviation, the regulator is beginning to adopt a more stringent approach to safety oversight and steps have been taken to address the shortage of inspectors. As a result India is expected to restore its Category I status by or before the end of the financial year, although this will likely come with some conditions attached and increased scrutiny.

Poor Infrastructure: The infrastructure continues to be a major constraint for Indian Airline Industry, aggravated further due to excess capacity created during good times. Maintenance and Air Traffic Control (ATC) infrastructure are grossly inadequate if the industry expects to grow any further. While, steps are being taken on this front to upgrade major airports in Mumbai, Delhi and Hyderabad, there are many concerns still that remain to be addressed. Attracting investments from the private sector will go a long way to develop and maintain the infrastructure, which is crumbling due to the built-up excess capacity.

India's airlines posted an estimated loss of Rs 10,600 crore in FY2014: The Indian airlines have reported a loss of around Rs 10,600 crore in FY14. This figure excludes Kingfisher Airlines, which remains a listed entity but has been non-operational since Oct-2012. With the exception of IndiGo -- which had a net income of Rs 320 crore -- every Indian carrier posted a net loss, even IndiGo's
profit was down almost 60% year-on-year. IndiGo's result included sale and leaseback and engine credits which are netted off its costs. Air India accounted for more than half of the combined industry loss at Rs 5390 crore. Jet Airways Group and SpiceJet reported their highest ever full-year losses of Rs 4100 crore and Rs 1000 crore respectively.

3.5.7 Recent developments

SpiceJet in the middle of a restructuring programme: In a bid to arrest losses, SpiceJet has reduced its capacity in a 'fleet standardization' exercise. Over the past six months, the airline's fleet has shrunk from 58 aircraft to 48 planes with the carrier returning 10 Boeing 737s to lessors. Three planes have been returned in the past two months alone. The airline now operates 48 aircraft, including 33 Boeing 737s and 15 Bombardier Q400. The reduction in capacity and the grounding of a Boeing 737 following a collision with a buffalo in Surat have impacted the airline's schedule, leading to cancellation of some flights. Meanwhile, further downsizing is expected as cash flow challenges are visible. The airline has been in discussions with a number of prospective investors to raise $200 million, alongside which the current promoters would infuse a further $50 million.

Air India's entry into Star Alliance: Air India's entry into Star Alliance in July-2014 was a major milestone for the carrier. However, in the short term it may increase costs due to the need to upgrade product and services, while the incremental revenue may be less than expected.
India's civil aviation market is already among the top 10 in the world and is expected to be the third-largest by 2020. India's aviation sector could see huge growth, with many smaller towns in need of better air transport links. Individual business magnates or companies in the real estate or mining sectors could well buy a few small planes to connect two or three cities. It makes more sense to focus on frequency at few locations than spreading geographically since every new station has a high fixed cost.

The government allowed 49 percent foreign direct investment (FDI) in domestic airlines last September, and Lufthansa, Qatar Airways, Emirates, Thai Airways, and Cathay Pacific are all said to be interested in joint ventures in India. The recent approvals include three regional carriers: Turbo Megha, Air Carnival, and Zav Airways. Three national airlines -- Air One Aviation, Zexus Air and Premier Air -- were also approved. Nevertheless, Six start-up airline projects received No Objection Certificates (NOC) in Aug-2014 and all are planning to launch by 3Q2016 and if all of the recent and planned new entrant becomes operational, India's aviation sector is expected to have significant over-capacity in the coming 5-6 quarters.

The Cabinet Committee on Economic Affairs revised norms for foreign direct investment in the aviation sector, permitting international airlines to invest in domestic carriers in September 2012. This means that international airlines can invest up to 49 per cent in the aviation sector. Previous FDI rules
permitted foreign entities other than airlines to directly or indirectly own an
equity stake of up to 49 per cent in Indian airline companies. According to
Captain G.R. Gopinath, founder of Deccan 360 and father of the low cost
airline movement in India "The order issued is very good for the sector and,
importantly, for the common man. As long as it’s an Indian-owned company, it
is a good move.” (Gopinath 2012)

“Allowing foreign carriers to invest in civil aviation in India will bring in
much needed capital into the industry, thereby enabling healthy re-capitalization
of airline companies, promoting connectivity and benefiting all stakeholders
including banks," CII president Adi Godrej said. Observers say airlines such as
SpiceJet will be the major beneficiaries from the new regulation (ANM-Bureau
2013), (Wood 2012) Relaxing FDI norms in aviation will help improve much-
needed cash flow to India’s private airlines which are under severe financial
pressure. It will also result in technology up gradation both in flight operations and
ground handling as it will introduce into the industry good international
management practices and equipment.(Hindu-Newsbureau 2012), (NDTV-
Newsbureau 2012) Although a 49 per cent stake gives investors a minority
shareholder control, they will have the right to block a special resolution. The
government has tried to cover most areas of concern expressed by political parties.
It is proposed that the chairman and two-thirds of the board of any domestic airline
receiving FDI will have to be Indians, and substantial ownership and control will
remain with Indian nationals. (A. Choudhury 2013), (PW-Newsbureau 2012). The need to ensure that no dubious investor takes advantage of this and security implications have been a constant concern and the new proposal includes suggestions not just by the Aviation Ministry but also the Home Ministry. It requires that foreign nationals participating in the investment will need security clearance. Equipment imports will also have to be cleared by the aviation ministry. (Bajaj & Timmons 2010), (Hindu-Newsbureau 2012). The FDI will apply to existing scheduled private operators—those who run regular operations—such as Jet Airways, Indigo, SpiceJet, Kingfisher, JetLite and Go Air. There are also a few regional scheduled private players. Opening the sector to foreign airlines is expected to mean good things for passengers. More competition is likely to result in lower air fares and better services. Better international connectivity is expected as likely fallout. Airlines such as Kingfisher have been pushing for FDI to boost the sector, but the airline industry is divided on this. More successful players like Indigo have expressed reservations that allowing global players in will result in cartelization and takeovers of Indian airline companies. (Gopinath 2012), (Reuters-Newsbureau 2013), (PTI-Newsbureau 2012b).

Foreign Direct Investment (FDI) of 49% in civil aviation is one of the most important policy decisions made by the Government in 2012. The decision will spur growth of the economy by improving regional connectivity. The recent tie-ups between Air Asia and Tatasons, Singapore International Airlines
and TataSons and Etihad Airlines and Jet Airways are indications of growing international interest in the Indian Aviation Sector. In another significant development the government opened up international travel routes to several overseas destinations increasing traffic entitlements of domestic carriers by 60%. India expects investment of US $ 12 Billion during the 12th plan period. In the last five years under the Private Public Partnership arrangement new international airports have been setup in New Delhi, Hyderabad, Bangalore, Mumbai, Kolkata and Chennai. A second international airport is planned in Mumbai. Another 35 non metro airports are under development. (TBN-Newsbureau 2013)

3.6 The FDI Policy in India

FDI (Foreign Direct Investment) in India is subject to certain Rules and Regulations and is subject to predefined limits across various sectors ranging from 20% to 100%. There are some sectors in which FDI is prohibited. The FDI Limits are reviewed by the Government periodically and when the need is felt, FDI is permitted in new sectors and the limits of investment in the existing sectors are modified. In order to revise the FDI Limits to attract foreign investment in India, the Government of India constituted a the Arvind Mayaram Committee headed by the Economic Affairs Secretary. (TNN-Newsbureau 2013),(TBN-Newsbureau 2013)
In July, 2013, the Government approved the recommendations made by the Arvind Mayaram Committee to increase FDI limits in 12 sectors of the proposed 20 sectors, including defense and telecom, viewed as the most sensitive sectors.

Some of the significant changes made in the Existing FDI Limits are stated below:

FDI Limit in the Telecom Sector is increased from 74 % to 100 %, of which up to 49 % will be permitted under automatic route and the remaining through FIPB (Foreign Investment Promotion Board) approval. A similar modality would be permitted for asset reconstruction companies and tea plantations.

FDI in 4 sectors i.e. commodity exchanges, power trading, gas refineries, and stock exchanges have been permitted through the automatic route. In case of PSU oil refineries, power exchanges, stock exchanges commodity exchanges, and clearing corporations, as against current routing of the investment through FIPB, FDI will be permitted up to 49 per cent under automatic route.

In single brand retail FDI is to be permitted up to 49 % under the automatic route and beyond that, through FIPB. In credit information firms, 74 % FDI under automatic route will be permitted.
For courier services, FDI of up to 100 % will be permitted under automatic route. Earlier, similar quantum of investment was permitted through the FIPB route. FDI cap in defense sector remained at 26%. However higher limits of foreign investment in state-of-the-art manufacturing would be looked at by the Cabinet Committee on Security (CCS). This decision leaves it open for CCS to allow up to 100% foreign investment in what the ministry of defence will define as "state-of-the-art" segments. There are safeguards built in to see that the equipment and technology are not shared with other nations.

In the controversial insurance sector, it was proposed to raise the sectoral FDI cap from 26 per cent to 49 per cent under automatic route which means that companies investing do not require prior government approval. A Bill to raise FDI cap in the insurance sector is pending in the Rajya Sabha. Some of the sectors where FDI limits were expected to be raised but were not were, media, civil aviation, multi-brand retail, airport, and existing pharmaceutical firms (Malhan & Didwania 2013), (NDTV-Newsbureau 2012)

3.6.1 FDI in Airlines in India Post FDI Cap Increase

The Arvind Mayaram panel report has caused some confusion over whether Civil Aviation will eventually included in the list of sectors where up to 100% FDI will be allowed. As seen earlier, in September 2012 the Government reversed its 1996 decision and permitted foreign airlines to buy up to 49% stake in Indian airline companies. Three foreign airlines have made
commitments to make investments in Indian carriers. Etihad Airways wants to buy a 24% stake in Jet Airways and Singapore International Airlines and AirAsia want to set up a new airline in partnership with the Tatas. These international carriers—Etihad of Abu Dhabi and AirAsia of Malaysia—have announced their interest in making investments into Indian ventures after getting approvals from their own shareholders, on the basis that the 49% cap on foreign airline investment cannot be breached. Though Etihad has only acquired 24% stake in Jet Airways, AirAsia has decided to invest 49% in the new entity. Now, if there is a change in FDI caps, are these investors not going to reconsider their entire India strategy? (S. Choudhury 2013)

why would AirAsia then need two Indian partners?

3.6.2 The Current Scenario in the Aviation Sector in India

The current scenario in the aviation sector in India is far from encouraging. In the quarter ended September 30, 2013, Jet Airways posted a loss of INR 891 Crores, up from INR 99 Crores in the corresponding period last year. This is the combined effect of falling airfares and hefty increases in fuel prices (7.7%) and airport rentals (38%). According to Aviation Consultant Centre for Aviation, all Indian airlines made a combined loss of US $ 300 mn, or INR 1800 Crores during the Quarter ended September 2013. (S. Choudhury 2013)
In the long term the prospects may improve. According to Maneesh Jaikrishna, Country Director India and Subcontinent, SITA, India is posed to emerge as the third largest aviation market in the world by 2020. In 2000 only one airline flew international routes – Indian Airlines. Today there are seven airlines flying overseas. Passenger traffic has increased from 42 million in 2000 to 150 million in 2013. The commercial aircraft fleet has grown from 119 aircraft to 437 aircraft. According to CAPA Centre for Aviation an independent aviation consultant which has been given the task of compiling a report on the aviation sector by the Ministry of Civil Aviation – by 2020 452 million passengers will be flying in India each year and the fleet size will grow to 1030 aircraft making the Indian aviation sector the third largest in the world. The total investment in the air transport sector from 2000 to 2012 is estimated at US $ 23 Billion and is expected to grow to US $120 Bn by 2020 of which US $ 80 Bn will be on new aircraft. (PW-Newsbureau 2012)

According to Dinesh Keskar, Country Head, India, Boeing Corporation, the Indian aviation market is expected to grow by 20% over the few years starting 2005 when the low cost carrier revolution started. But although several airlines placed orders on Boeing and Airlines during that period. The deliveries have been greatly deferred. The expected growth has not materialised and airlines have been forced to slash fares due to strong competition from other carrier as well as luxury superfast trans. (Keskar 2005)
For the potential of the aviation sector to be realized a number of policy changes need to be made. One of the lucrative businesses for Indian carriers is the international sector. International traffic share is negotiated with the destination countries on the basis of reciprocal arrangement with the carriers operating from the destination countries. In 2011 the seats sought by the six Indian carriers flying international routes around 75,000 seats per week. The government insisted that Air India would be given the opportunity to fill up its quota before others could be given an opportunity. In the overseas routes Indian carriers have a seat share of 36%. Indian Airlines has a market share of 14% followed by Jet Airways. The government’s policy permitting Indian Airlines to complete its quota first puts other carriers at a disadvantage. International carriers from other countries have a seat share of 2,00,000 seats per week. Private airlines in India are of the view that all Indian carriers must have a level playing field and Indian Airlines should not receive preferential treatment. (Singhal & Upadhyay 2011)

According to Amber Dubey, partner and head-aerospace and defense at global consultancy KPMG “over six decades of protectionism have not got us any benefits. Its time to go for a new policy change and see what happens.

The International Air Transport Association has asked India to cut its taxes. Mr. Tony Tiker, IATA Director General and CEO said in a keynote address to Confederation of Indian Industry that the aviation industry’s problem
would not be solved by giving financial bailouts to a selected few carriers. The solution lies in taking deliberate action on a handful of issues – reducing taxes, ensuring capacity and keeping costs in check. Airport charges have steadily increased. Delhi airport charges have increased 346% adding US$ 400 million to operating costs of airlines offering connectivity in India. (ISI-Bureau 2010)

Air India needs to be privatised, the irrationally high taxes on aviation fuel and MRO need to be reduced, the requirement of flying for five years for flying international needs to be removed; and bilateral restrictions need to be removed, say for a five year trial period. Then perhaps the upward revision in FDI limits will bear fruit”. (Dubey 2012)

According to a report by the CAPA) (Centre for Asia Pacific Aviation, In the 1990s when the aviation deregulation policy permitted the entry of private airline companies on domestic routes, first as air taxis and subsequently as scheduled airlines, India permitted up to 40% foreign direct investment, without excluding foreign airlines. Jet Airways at the time maximised this provision, with both Kuwait Airways and Gulf Air each holding a 20% stake in the airline. This strategic investment was to provide Jet Airways with a number of benefits including access to expertise and international passenger feed. However, in 1996 the Government of India announced that foreign airline shareholdings were not in the interest of the Indian aviation sector and would not be permitted any more. On the face of it this was because private airline
companies were relatively small at that time and the concern was that foreign airlines/investors would control their development to feed their offshore hubs, making the Indian partner a regional carrier. But it may have been a move designed to thwart the plans of the Tata Group and Singapore Airlines to jointly launch a domestic carrier in India. (Upadhyay 2013). Jet Airways had to repurchase the shares from its Gulf investors. The government stand at that time was: when Indian airline companies were of a size that would enable them to negotiate as equals with foreign airline investors, the restriction would be removed. But with the international environment in the 2000s, the new security concerns, and the potential impact on Air India, were brought up whenever the issue came up for discussion. (Martin 2013). (Singhal & Upadhyay 2011) And for many of the existing players it suited their interest to limit the potential for a professional, well-funded competitor to enter the market (Bhattacharya 2013b), (ISI-Bureau 2010), (Paul 2013)

But finally when the decision was taken to raise the FDI cap in the aviation sector to 49% in September 2012, Civil Aviation Minister Ajit Singh invited more foreign direct investment from America in the country which according to him now offers immense business opportunities. The minister said that “The Indian Government has taken a number of steps to make affordable air connectivity to remote and interior areas of the country in Tier II and Tier III cities of India.” in his address to the 4th India-US Aviation Summit which
was attended by top professionals from the two countries’ aviation sector. India envisaged an investment of USD 12 billion in the aviation sector in the 12th plan of which USD 9 billion is expected from the private sector, including, expansion and modernisation of existing airports, setting up of new airports, and development of low cost airports. (Firstpost-Newsbureau 2013a), (PW-Newsbureau 2012)

3.6.3 Investment Interest in Infrastructure

Top US companies are interested in investing in India’s growing aviation sector in fields such as security, building new airports and aviation infrastructure. While Obama Administration officials wanted the Indian Government to address its concerns regarding some of the key policy issues, they praised the recent steps taken by New Delhi. “Indian aviation is experiencing high growth across the board, from the entry of new carriers to a growing middle class preferring to travel by air. The ongoing changes in the regulatory environment are an encouraging sign,” US Transportation Secretary Anthony Fox said at the India-US Aviation Summit in October 2013. “These changes signal to private industry that the Indian government increasingly recognises the needs and interests of business,” he said.

Director of USTDA (US Trade and Development Agency), Leocadia I Zak said the US-India Aviation Cooperation Program (ACP) is well-positioned
to foster growth in the aviation market and to facilitate the changes needed to support that growth. “The Government of India realises that growth in the aviation industry means broader growth across the whole economy, and has been taking steps to attract investment and review regulations. The Government has approved higher levels of foreign direct investment in Indian airlines. As a result, new investments have been announced in existing as well as new carriers. The Indian Government has also announced its plan to change its international regulations to allow more Indian airline companies to enter the international sector. USTDA and the ACP are increasing technical capacity through training as well as the sharing of best practices. One of the ACP’s initiatives was an innovative training program focusing on improving high-density air traffic management operations at several Indian airports,”

USTDA is working with its ACP members to assist India in implementing several innovative technologies. Before the ACP was formally established, USTDA worked with some key US and Indian partners, who had identified a need for upgraded navigation facilities. The Agency employed a program developed by USTDA to assist India in implementing one of the world’s most sophisticated satellite air navigation systems, code named GAGAN. As a result, India awarded a contract to a US-led consortium to implement GAGAN. With GAGAN India will be the fourth region in the world to transition to this cutting-edge technology during the period 2002 to 2012, US
aerospace exports to India have more than doubled to USD 1.5 billion. Trade goes both ways and this has led to Indian exports as well. Indian aerospace exports to the US are almost 22 times what they were in 2012. India is now the ninth largest aviation market in the world; this presents several opportunities for partnership between companies from both the countries.

For example India is modernising its existing airports, aiming to convert 35 non-metro airports into state-of-the-art facilities. US companies have the expertise, experience and know-how to help India achieve this goal. US firms have capabilities in maintenance, repair, and overhaul of aircraft as well as expertise in pilot training, engineering services, and ground handling equipment, cargo management, emergency response systems and disaster management. Partnering with the Indian aviation industry creates economic opportunities in India. It also helps facilitate travel and trade. It impacts civil aviation safety. However there are challenges to the cooperation in the aviation sector. Insufficient energy, transportation, and inadequate supply-chain infrastructure add to the costs and challenges of doing business in India. Forced localisation requirements can impede collaboration. Regulatory complexity can be a formidable barrier (Firstpost-Newsbureau 2013b), (ANM-Newsbureau 2012a)
3.6.4 Investment Interest in Airlines

While infrastructure companies seem to be welcoming the government’s new move, airline operators are more cautious. Major foreign airlines have adopted a wait-and-watch approach over the government's decision to allow them to acquire a 49 per cent stake in Indian airline companies.

Barring Abu Dhabi-based Etihad Airways, most of the major foreign airlines say they do not have plans to invest in Indian airline companies. Aviation consultant Centre for Asia Pacific Aviation (CAPA) said, "The flood of investment is unlikely to happen in the short term. But from the perspective of demonstrating that the government is committed to the development of a viable airline industry, this is a favourable milestone". Etihad has been the only foreign airline to have made a positive statement. According to the airline "Equity investment strengthens our relationships (with Indian the Indian partner) and allows us to work together to identify revenue generation and cost management opportunities. We see equity as a positive reflection of our partnership. We will make investment where we believe the commercial prospects are favourable, where we see like-minded business philosophies," No-frills carrier Spice Jet is in talks with an unidentified Gulf-based carrier for investment. Its officials had held "preliminary discussions" with a Gulf based airline for potential investment, but no details are available. Jet Airways' officials are known to be holding talks with airline companies in the Middle
East, but these talks could be on code share and may not be aimed at attracting investments. According to International Airlines Group (IAG), the holding company of British Airways and Spain's Iberia, in an official communication said "Our aim is to be a global airline group and we are pleased with any steps towards full liberalisation of the aviation industry in India. India is a key market for IAG and we are monitoring the regulatory environment. However at this stage we have no plans to invest in any Indian airlines. "Middle East based airline companies like Qatar Airways and Emirates, which are seen as potential investors by aviation observers, also have no plans to invest in Indian airline companies. An Emirates spokesperson said, "India is one of the world's most important aviation markets. While Emirates' philosophy is to achieve organic growth, we welcome any reform which liberalises markets, including FDI rules, "Some other airline companies like Virgin Atlantic, Lufthansa, and Bahrain Airways also have no plans. Lufthansa had acquired equity stakes in the past in SWISS, Austrian Airlines, Germanwings and Brussels Airlines. CAPA feels SpiceJet and GoAir were "perhaps the airline companies with the greatest prospects" of attracting foreign airline investment at present. (PTI-Newsbureau 2012a), (ANM-Newsbureau 2012b).
3.7 Conclusion

The chapter provides a wide coverage of aviation industry by bringing into focus the development of aviation industry in India, the growth over several decades and the recent development in India. The profiles of various companies in the aviation industry have been thoroughly examined and the policy changes that have taken place in recent times, have been highlighted. Thanks to globalization the aviation industry has witnessed a big change with the entry of private and foreign players to try their fortunes in the industry which has been hitherto the sector entirely reserved for public sector. The severe competition has thrown open the industry only for the consumers of service benefit.