National Civil Aviation Policy 2016

In June 2016, the Union Cabinet approved the National Civil Aviation Policy 2016 as a comprehensive guidance for creating an ecosystem which is conducive and encouraging for the Civil Aviation sector in India. The policy covers multiple aspects of the civil aviation industry which is currently valued at $16 Billion, and is expected to give a boost to this critical segment of the economy.

Overview of the Current Scenario

As per International Civil Aviation Organization (ICAO), India ranks 8th in the world in terms of passengers carried. The number of people using air travel as a preferred mode of travel is continuously increasing. The domestic carriers in India carried **810 lakh passengers** in 2015 which represented a growth of 20.34% over 2014. Similarly, around **457 lakh passengers** were also ferried to or from India by air out of which 37% of the passengers were carried by Indian carriers. The share of Indian Carriers in the international traffic pie has been increasing steadily.

In 2014-15, the airliners carried **5.92 lakh MT of domestic cargo and over 13.68 lakh MT of international cargo.** However, Indian airliners carry only 17.8% of the total international cargo to and from India. India has over **450 airstrips/airports out of which only 75 have scheduled operations**. Nearly 160 airports are owned or operated by State Governments, while 125 are operated by AAI. AAI also holds 31 non-operational airports. The Central Government has recently approved 14 new green field airports. In spite of competitive costs, India currently accounts for only 1% of the global MRO market share. There are about 1 6 scheduled operators and over 120 non-scheduled operators in India with some being exclusively cargo operators.

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MRO Industry worth $800 Million

National Civil Aviation Policy 2016

The Ministry of Civil Aviation (MoCA) released a draft Civil Aviation Policy in October 2015 for industry and public consultation. **After extensive discussions on the draft, a revised policy document was approved by the Union Cabinet on 15th June 2016.** The policy document is a first of its kind in India, as it takes a comprehensive look at the sector and provides clear guidance and targets.

Stated Goals

The policy mirrors the public position of the government of bringing India among **the top three nations in the world in the Civil Aviation Sector**. The policy seeks to leverage the advantages of "an ideal geographical location between the eastern and western hemisphere, a strong middle class of about 30 crore Indians and a rapidly growing economy". The policy also proposes to make flying more affordable and convenient to attract the middle income bracket to this mode of transport. The policy seeks to simplify "systems and processes" and making it more transparent to have a multiplier effect on the economy and create new jobs. **The Policy finally aims to "create an eco-system to make flying affordable for the masses and to enable 30 crore domestic ticketing by 2022 and 50 crore by 2027, and international ticketing to increase to 20 crore by 2027. Similarly, cargo volumes should increase to 10 million tonnes by 2027."**

The policy inter alia covers important aspects like Regional Connectivity and Route Dispersal; International Operations, Safety, Airport Development, Maintenance Repair Overhaul Operations and Sustainability.

Regional Connectivity

In 2003, a committee was formed under the Chairmanship of Mr. Naresh Chandra to recommend reforms for the Aviation Sector. In its report on regional connectivity, the committee had recommended the establishment of an **Essential Air Services Fund**, collected through user charges to support financially unviable regional routes. The committee also recommended the scrapping of the Route Dispersal Guidelines (RDG), noting the fact that the RDG impedes the way of new airlines. The committee suggested the promotion of regional/feeder airlines through a transparent subsidy model. The **Rohit Nandan Committee (2011)** reiterated the need to establish the support fund but suggested the retention of RDGs. **The Nandan Committee also recommended an objective designation of subsidized routes based on Passenger Load Factors.** In 2013, the MoCA commissioned a private consultant to study and recommend actions on 'Promotion of Regional and Remote Area Air Connectivity in India'. The consultant recommended a slew of measure by the State and Central Governments to promote regional connectivity. The policy draws from all these reports to include multiple provisions for promotion of regional connectivity.

The policy has announced the implementation of a **Regional Connectivity Scheme (RCS)** from July 2016 to incentivize affordable connectivity to hitherto unconnected or under-connected areas in the country. The MoCA has decided to target an indicative fare of Rs.2500 (inflation indexed) per person on the routes notified under RCS and stage length up to 500 KMs. In draft scheme guidelines separately released by MoCA, the RCS routes have been defined as those connecting RCS airports and having a flight stage length between 200 KMs and 800 KMs (with the lower limit not applicable to North Eastern, Hilly and Island

States/UTs). The scheme would provide the following incentives to help operators meet the fare cap requirements:

Demand driven development of unserved or underserved airports at an indicative cost of Rs. 50-100 crore

Financial concessions by Central and State governments in form of reduced VAT on Aviation Turbine Fuel, free land and emergency services, no airport charges, reduced Terminal Navigation Landing Charges (TLNC)and Route Navigation and Facilitation Charges (RNFC), reduced Excise duty on ATF

Viability Gap Funding (VGF) for operators with 80:20 share between Central and State Governments (90:10 for NE States)

In addition to this, the Government will create a **Regional Connectivity Fund** to be administered by Airports Authority of India to support the VGF. The RCF will be replenished through a levy on all domestic flights except RCS, Category II and IIA routes and for flights on aircrafts with less than 80 seats. As per the draft guidelines for RCS, the extent of VGF will be linked to the Passenger Load Factor for the routes. Air Freighters operating on RCS airports would also be provided the concessions on Airport charges, TNLC/RNFC and Excise on ATF but will not be eligible for VGF. The policy retains but revises the existing Route Dispersal Guidelines (RDG). The existing RDGs currently classify the air routes in 3 categories.

Category	Types of Routes	Changes in NACP 2016	Current Requirement	Requirement as per NCAP 2016
Category I	12 Trunk Routes between Big and Major Cities	New routes to be added based on objective criteria	-	-
Category II	Routes connecting locations in North Eastern region, Jammu & Kashmir, Andaman & Nicobar and Lakshadweep	Uttarakhand and Himachal Pradesh to be added	10% of Category I Capacity	10% of Category I Capacity
Category IIA	Routes within Category IIA States	Uttarakhand and Himachal Pradesh to be added	-	
Category III	Routes other than Category I and II		50% of Category I Capacity	35% of Category I Capacity

The Category I routes will be rationalized to include high traffic routes on an objective criteria. These criteria would include **a flying distance of more than 700 km, average seat factor of more than 70% and annual traffic of 5 lakh passengers over two schedules**. Category II routes would now also include routes to and from **Uttarakhand and Himachal Pradesh.** For Category III routes, the percentage will now be **35% of the Category I** routes to adjust for changes due to RCS. After introduction of RCS, the operations of Helicopters and small aircrafts on RCS routes would also be included in the RDG requirements.

In order to keep the RDGs dynamic, the categorization of routes would now be periodically reviewed every 5 years and the new categorization would apply from winter of 2017.

International Operations

An October 2004 decision by the Cabinet had mandated that only those carriers which posses 20 aircrafts and have flown at least 5 years on domestic routes be allowed to operate internationally. The rule known as 5/20 rule was considered by the industry and experts to discriminate against newer airlines who wish to commence international operations. **The policy modifies the 5/20 rule to allow airlines provided they deploy at least 20 aircrafts or 20% of their capacity for domestic operations**. The new revision de facto retains the 20 aircraft aspect of the 5/20 rule. However, this will open the field for some airlines with adequate financial muscle to commence international operations, thereby increasing the competition in the international flights segment.

The policy also commits to entering into **Open Skies agreement** with SAARC countries and countries located within a radius of 5000KM.This basically means that there would be no limitations on the airlines in terms of flights and seat capacity. This would enable easier travel to these countries and increased possibilities of economic interactions. **The policy also allows for allocation of additional capacity to foreign operators from the countries within 5000 KM radius in cases where less than 80% of the allotted capacity has not been utilized by Indian carriers.** The policy also talks about renegotiating bilateral Air Service Agreements (ASAs) to comply with 'effective regulatory control' provisions in other countries in view of the 'Substantial Ownership and Control' clauses to allow Indian Cargo Operators with more than 74% FDI to be designated carriers.

The policy also relaxes the norms for code sharing among airlines to enable end-to-end connectivity. The policy allows all domestic carriers to have code sharing agreements with foreign airlines to any point in India. All designated airlines are free to have any code share terms with foreign airlines within the provisions of ASA and without requiring prior approval from MoCA. The airlines would only be required to inform the MoCA 30 days before the commencement of such code share flights.

Airport Development

The policy pledges to continue the development of the airports through Airports Authority of India, private players or PPP mode. The policy also reiterates the position of encouraging the development of Greenfield or Brownfield airports at optimal costs.

The policy also makes **Hybrid Till Method** as the default option for deciding all future tariffs unless specified otherwise including for AAI operated airports. 30% of the non-aeronautical revenue will be used to cross-subsidize aeronautical charges. While the policy banks on the hybrid till method to incentivize development of the airport infrastructure by the operator, concerns have also been raised regarding the impact it will have on the costs of flying for passengers. The policy also seeks to encourage state governments to establish agencies/SPVs with AAI to encourage airport development in the states.

Role of AAI: The policy also provides for AAI to take up development of new greenfield/brownfield airports subject to some conditions like **financial viability with non-zero IRR, VGF funding for strategic airports, free land** etc. The policy also provides for compensation to AAI in case of a new airport coming up within 150 KM of an AAI airport which has not reached traffic saturation. **The compensation may be in form of direct transfers, right to first refusal, minority equity participation or a JV with the state government.**

Maintenance, Repair and Overhaul

The policy reiterates the intention expressed in the Union Budget 2016-17 to provide incentives to MRO operations. The Union Budget had previously announced following provisions:

- Custom duty exemption for MRO tools and tool kits
- One time certification for parts for MRO
- Duty free parts can now be utilized within 3 years
- Import of unserviceable components allowed
- Foreign aircrafts under MRO can now stay till 6 months in India and can carry passengers at the beginning and end of the stay

In addition to these announcements, the policy also provides for easy visas and temporary landing permits, provision for adequate land for MRO operations in future airports and waiver for airport royalty/additional charges for a period of five years.

Air Cargo

The policy gives adequate attention to encouraging Cargo operation both on domestic and international routes due to its importance in a growing economy, employment potential and cross-subsidizing the passenger fares. **The Harmonized List of Infrastructure includes cargo facilities co-located at the airports thereby enjoying the tax and other incentives of infrastructure investments.** The Air Cargo Logistics Promotion Board will create a detailed action plan to gradually reduce the **dwell time of air cargo to less than 24 hours and to less than 8 hours for outbound exports by December 2017.** The policy also commits to a streamlined Customs procedure, development of Service Delivery modules for stakeholders and advance cargo information systems. APCLB will also recommend space norms for cargo at Greenfield airports and cargo capacity augmentation at existing airports. APCLB will also recommend norms for freighter priority and user charges on Cargo by airports. **The policy commits to encouraging**

airport operators to provide 10 year leases to cargo freighters to encourage infrastructure development.

Other Aspects

Safety: The policy commits to zero tolerance for safety violations and preventing air accidents, with real time reporting of incidents. The policy promises financial and administrative empowerment of DGCA, the safety regulator for aviation industry, to give it more teeth and power to enforce safety. However, the policy stops short of making the DGCA independent of MoCA's administrative control.

Operator Classification: In order to provide flexibility for new and regional operators, the policy creates a new categorization of "Scheduled Commercial Operator" for operators with aircrafts weighing less than 40 tonnes subject to a minimum fleet size condition. To provide seamless connectivity, these operators can code share with domestic or foreign airlines.

Navigation Systems: AAI has been tasked with providing a fully harmonized air navigation system in lines with global norms and best practices. With the availability of an indigenous regional navigation system "GAGAN", all aircrafts registered in India would be fitted with GAGAN, with concessions and incentives to the operators for retrofitting.

Ground Handling: Three ground handling agencies will now be required at all major airports to ensure fair competition. In case of third party ground handling, an Air India Subsidiary/JV will match the lowest royalty/revenue offered by ground handlers. The norms have been relaxed to allow all operators including helicopter operators and their subsidiaries to carry out self handling, provided the staff is under regular employment.

Helicopter Operations: Given the small number of helicopters currently operating in India, the policy seeks to encourage helicopter operations in the country. The MoCA would notify separate rules for helicopter operations and strive to create 4 heli-hubs in the country. The compliance norms would be eased for Helicopter Emergency Medical Services. Helicopters will also be allowed to fly below 5000 ft without ATC clearance. A new cell for Helicopter Operations will also be setup in DGCA.

Sustainability: Currently, 12 airports have an installed capacity of 4.55 MWp with another 21.41 MWp in 15 airports under construction. The policy tasks MoCA with further efforts to reduce CO_2 emissions in Aviation industry under the UNFCC framework. The policy also seeks to encourage Flexible Use of Airspace (FUA), which basically means dual use of defence/military airspace, to reduce flight distances and thus emissions. Airports would be encouraged to create energy conservation plans and undertake audits.

Conclusion

The policy set ambitious targets for the aviation sector in India and seeks to provide an enabling framework. However, the policy also needs to be accompanied by co-ordinated efforts to create an ecosystem which has adequate capacity and investment to deal with the challenges which currently exist. While the policy provides a comprehensive framework in terms of scope, the actions still need to be defined more specifically.