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Even Skies are not a Limit

India-ASEAN Cooperation in Aviation Sector

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EVEN SKIES ARE NOT A LIMIT

INDIA-ASEAN COOPERATION IN AVIATION SECTOR

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The report aims to elaborate the nature of emerging complementarities between India and ASEAN in the field of civil aviation. Outlining the changing scenario of the Indian aviation sector, it explains the key areas which have been focused on in the process of liberalizing the Indian civil aviation sector and the rising opportunities of collaboration with other countries as a result of this liberalization. Thereafter, an attempt has been made to draw a framework to show how the changed environment of Indian civil aviation sector fits into the contours of wider India-ASEAN cooperation.

Taking into account, factors such as the open skies policy, foreign direct investment and burgeoning air transport and tourists markets, the areas of convergence between India and ASEAN in the field of civil aviation have been identified. However, there are still some obstacles that limit more wide-ranging civil aviation cooperation. Analyzing the challenges in the way of India-ASEAN civil aviation cooperation, the paper concludes with the observation that while some of these challenges are genuine, they not insurmountable, if efforts are made in the right direction.

An Overview

The year 2001 marked a disappointing phase for the Indian civil aviation industry when Singapore Airlines was forced to withdraw from the bidding process of the privatization of India's public sector airlines – Air India, due to opposition from political parties, trade unions and the media. The Singapore Airlines, which entered the bidding process through a joint venture with TATA, was infuriated over the non-investment friendly decisions of the Indian Government.

However, that disappointing phase seems to be over now, with the government liberalizing its aviation sector and relinquishing its lethargic bureaucratic processes. With the objective of liberalizing the aviation sector, the Indian Government has taken some significant policy measures over the years, which have placed India on a comfortable footing, while engaging in cooperative ventures with ASEAN. It is pertinent to identify some of these measures, taken by the Government.

INDIAN AVIATION SECTOR: LIBERALIZATION PROCESS

There are two important policy initiatives taken during the last seven years – revised FDI policy and greater participation of the private sector. Some of these measures, in terms of revised FDI policy in the aviation sector are:

- The FDI limit in air transport services (Domestic Scheduled Passenger Airline sector) has been increased from 40 to 49 per cent and the

investment from Non-Resident Indians (NRIs) has been allowed up to 100 per cent;

- No direct or indirect participation by foreign airlines is permitted;
- While the FDI cap for non-scheduled airlines, chartered airlines, and cargo airlines, has been increased up to 74 per cent via automatic route; for NRIs, the investment limit has been raised to 100 per cent via automatic route;
- Neither direct nor indirect participation by foreign airlines is allowed in this sector;
- The government has allowed for 100 per cent FDI in the development of Green Field Airports through automatic route;
- The FDI cap for ground-handling services under the sectoral regulations and security clearances has been increased up to 74 per cent through the automatic route. However, NRIs can invest up to 100 per cent;
- The 100 per cent FDI, under the approval of the DGCA (Directorate General of Civil Aviation), is allowed in the field of maintenance and repair operations, flying training institutes, technical training institutions and helicopter services.

Similarly, the Indian Government has facilitated greater role of private players in the aviation sector. As a result, the number of private players in the domestic aviation industry has increased considerably during the last five years. Some of the private airline companies have also started overseas flight services. Some of the policy initiatives to promote private participation in the aviation sector are as follows.

Private scheduled carriers with five years' experience in the domestic sector and a fleet size of twenty aircraft, have been allowed to operate on international routes. The Indian Government has also decided to allow for the private management of airports. This decision is based on the recommendations of various committees, such as the Naresh Chandra and Kaw Committees. A new 'airport infrastructure policy' to enhance private investment in Greenfield Airports is also under consideration by the Committee on Infrastructure, chaired by Prime Minister Manmohan Singh. The new policy is likely to be unveiled by mid-2008.¹ There is also the possibility of divestment of the government's share in Air India through an initial public offering in the second half of 2008.² India is also seeking liberal arrangements in the civil aviation sector with other countries and regional groupings to enhance its access to wider markets. Agreements in this regard, have been signed with a wide range of countries.

As a result of these efforts, India's civil aviation industry has expanded rapidly during the last few years. According to India's Civil Aviation Ministry, the industry is expected to grow at 25 per cent per annum for the next 10 years. The number of domestic passengers, which currently stands at around 30 million per year, is expected to touch 182 million per year by 2020, while the country's airports will handle 400 million passengers annually³. With an annual growth rate of 25 per cent in 2005-2006, India is certain to attain an average growth rate of 16 per cent per annum in the aviation sector, by 2010.

¹ "Airport Infrastructure Policy by early April," *The Economic Times*, 28 February 2008

² "Air India IPO Likely in Second Half of 2008," *The Economic Times*, 28 February 2008.

³ Ramachandran, Sudha "In India the Sky's the Limit," *Asia Times Online*, 28 April, 2007
URL:http://www.atimes.com/atimes/South_Asia/I D28Df03.html, Accessed on 20 April, 2008

During the last five years, the Indian aviation sector has not only registered impressive growth in terms of passenger and cargo traffic, but also modernization and expansion of existing facilities, and greater presence of private players. These developments have made the aviation sector a lucrative market, both for domestic as well as international companies. The prospects for future growth are extremely optimistic due to the existence of an almost 300 million-strong middle class, as potential consumers of air services. A Sydney-based aviation consultancy company, the Centre for Asia Pacific Aviation (CAPA) has also estimated that airlines in India may be selling about 50 million tickets a year by 2010 in comparison to 19 million now.

The Economic Survey 2007-08 indicates that the civil aviation sector marked a record growth in January-December 2007 with a 32.51 per cent increase in the domestic passenger traffic and 15.6 per cent growth in international air traffic. The overall air passenger traffic has doubled between 2004 and 2007. Air cargo traffic has also increased, with international and domestic air cargo traffic having achieved a growth of 13 and 9.8 per cent respectively, during April-October 2007. CAPA has predicted in its survey that up to 2010, with an expanded size of 60 million and 40 million respectively, international and domestic air traffic in India have an annual growth potential of 25-30 per cent and 15 per cent respectively.⁴ If the current trend continues, India will easily outperform China as the preferred destination for aviation and tourism, where air traffic is envisaged to increase by an annual average rate of 9.6 per cent up to 2010.

⁴ "Civil Aviation in India - An Overview, INRNews," http://www.inrnews.com/realestateproperty/india/infrastructure/civil_aviation_in_india_an_ove.html, Accessed on 26 March, 2008

This rapid growth highlights the need for more airports with world-class maintenance, repair and overhaul (MRO); and ground-handling facilities to manage the increasing traffic volume. It also places pressure on India to purchase more advanced aircrafts such as the Super Jumbo Airbus A-380, and fuel the process of modernization of the existing airports along with the development of new airports. As a result, a huge sum of investment is needed to address the demands of the Indian civil aviation sector which is presently in a transitional phase.

Given its limited ability to manage the huge investment for the modernization and expansion of existing facilities, the government has opted for a greater role for private players in the civil aviation sector. The Naresh Chandra Committee has also recommended privatization as the key to develop the civil aviation infrastructure. Therefore, India is looking for ways to ensure the entry of the private sector in the aviation sector, evidenced by the proposed public-private partnerships and joint ventures to modernize the aviation sector, which generated considerable euphoria amongst supporters. It was along the same lines that recently, the operations, management and development of airports at Delhi and Mumbai were handed over to joint venture companies, namely Delhi International Airport Private Limited (DIAL) and Mumbai International Airport Private Limited (MIAL). In this regard, the participation of global companies with expertise in the aviation sector is very valuable, since they are sources of both, capital and managerial skills

II INDIA-ASEAN COOPERATION IN AVIATION SECTOR

The emerging trends in the Indian aviation sector have opened up new vistas for enhancing cooperation with other countries. Given the important role of some Southeast Asian companies in the Indian civil aviation

sector and increasing strategic economic engagement between India and ASEAN, there are immense possibilities of widening civil aviation cooperation between India and ASEAN.

First, an expanding aviation sector will put India under pressure to seek wider market access, by establishing liberal arrangements under bilateral agreements, or by joining regional or multilateral arrangements with similar agendas of liberalization.⁵ Along these lines, India has concluded some bilateral air service agreements with USA, EU and some west Asian countries. India has also unilaterally initiated a limited open sky policy for ASEAN in 2003, by allowing them daily flights to the metro cities and unlimited flights to 18 tourist destinations across India. In 2005-06, India extended this policy to all designated foreign airlines by providing them the facility to mount as many services as they desired to the available points of call, subject to the terms and conditions of the existing commercial arrangements between the airlines of both sides, for the period from December 2005 to January 2006. These arrangements would help India address the problem of the non-availability of seats, to and from India, during the peak winter season. India is also exploring the feasibility of developing an 'open sky' regime with ASEAN. However, no time-frame in this regard, has been decided upon.

Second, a bilateral air services liberalisation agreement is the most-preferred way to cooperate with the ASEAN countries in the aviation sector. During the fifth India-ASEAN Summit, even though the Prime Minister of India, Manmohan Singh, proposed an 'open sky' regime with ASEAN, which would permit flights to any destination between the two, without restrictions on the frequency of

flights or the size of aircraft⁶, such an agreement has become hostage to the non-operationalisation of an open sky regime within ASEAN.⁷ As a result, India has initiated the establishment of bilateral air service agreements with ASEAN members. For instance, it has finalized a bilateral agreement with Singapore, which provides for increasing the number of seats being offered by their designated airlines, in a phased manner, by 2009. Malaysia has also signed a civil aviation pact with India to liberalize air services, by boosting flights by 50 per cent between major cities, including Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad, and opening up access to secondary airports in India. This pact would allow the aviation authorities to designate as many carriers as they wish, to operate on the India-Malaysia route.

India has also revised an Air Services Agreement with Thailand, to provide for multiple designations of airlines. Under the new agreement, the number of seats per week will be increased in a phased manner, up to 18,671, by the summer of 2009, from the 8606 available seats in the summer of 2006. Besides, the designated airlines of both the countries shall be entitled to operate flights with unlimited frequency and capacity on their respective specified route schedules.⁸

Third, attempts have also been made in the direction of enabling private sector airlines to harness the opportunities available on the India-Singapore route. Jet Airways India Limited has been operating flights between New Delhi and Singapore since August 2006. It also operates air services between Singapore-Chennai and Singapore-Mumbai. The emergence of low-

⁵ Goldstein Andrea and Christopher Findlay (2004), Liberalization and Foreign Direct Investment in Asian Transport Systems: The Case of Aviation, *Asian Development Review*, 21(1):37-65

⁶ "India-ASEAN to Strengthen Air Ties," *Business Standard*, 15 January 2007.

⁷ "India mulls joining ASEAN Open Sky Regime," *Financial Express*, 13 September 2006.

⁸ "India Opens Skies with Italy and Thailand," <http://www.thetribuneonline.com/aviation-archives10.htm>, Accessed on 20 March, 2008

cost carriers is another important characteristic of the transforming civil aviation industry, not only in India, but also in Asia. The entry of low-cost carriers has revolutionized the existing air transportation regime, by motivating a large number of passengers to use air services as the preferred mode of transportation. Following the trend, a Singapore-based low-cost carrier, Tiger Airways, has decided to operate four flights per week to Chennai and three per week to Kochi from October 2007, with one-way fares (excluding taxes) starting from less than US\$39. Jet Airways and Thai Airlines have also started to operate low-cost flights from Bangkok in Thailand to Kolkata in India.⁹ These developments are a reflection of the evolution of a promising air transportation market between India and Southeast Asia, engendered by increased economic interaction and tourist movement.

Fourth, recent growth in the air traffic has put pressure on the Indian Government to further upgrade its existing airport infrastructure system. However, such upgradation requires huge sums of investment, which the government has not been able to generate on its own. To overcome the resource constraint, the government has embarked on attracting foreign investment into the aviation sector. India has allowed 100 per cent FDI in the development of Green Field Airports through automatic route. This paradox, of the burgeoning Indian civil aviation sector and lack of aviation infrastructure, has paved the way for mutually advantageous ties between India and ASEAN.

Inspired by the recent growth in India's civil aviation industry, Singapore's Changi Airport signed a MoU with the TATA group to jointly bid to invest in developing and managing Indian airports. TATA and Changi hold 51 and 49 per cent shares respectively, in this joint venture. Their

initial targets are the Chennai and Kolkata airports, which are India's third and fifth-busiest airports respectively. Although no final decision regarding the privatization of these two airports has been taken, it is quite likely that after the privatization of Delhi and Mumbai airports and the development of green field airports in Bangalore and Hyderabad on the basis of a public-private partnership model, the government will seek private investment for the airports in Chennai and Kolkata. Moreover, the scope of this venture can be expanded beyond the joint development of these two airports to other non-metro airports as well. The Committee on Infrastructure has approved the development of 35 non-metro airports of world class standards, with a focus on airside and countryside development.¹⁰ According to Mr. Ng Tim Peng, the Vice-President of the Changi Airports International (India), this joint venture could also opt for investment in airports which have already been privatized. This reflects the increasing level of confidence among foreign investors, in a promising civil aviation sector in India, despite their previous demoralizing experiences.

Finally, cooperation with ASEAN in the aviation sector can further enable India to harness better technological and managerial know-how from advanced ASEAN economies, such as Singapore and Malaysia. The Changi Airport International of Singapore has signed a Technical Service Agreement (TSA) to oversee the construction of a Greenfield airport in the Durgapur Industrial Region of West Bengal. The Bengal Aerotropolis Project Ltd (BAPL) is involved in the building of this project. The project site, situated at Andel, 190 kms away from the Burdwan district, is India's first-ever aerotropolis (airport city), encompassing an airport along with an IT

⁹ Cheap Flights to India from Bangkok , <http://www.morungexpress.com/index.php?news=4163> Accessed on 25, March 2008

¹⁰ "Changi Airport Partners With West Bengal Greenfield Project," <http://www.indiaenews.com/business/20080227/100617.htm>, Accessed on 3 May, 2008

park, industrial zone and a township.¹¹ Apart from assessing the master-plan for the airport, by taking into account the airport capacity, land use plan, passenger terminal and layout, Changi will also arrange to train the BAPL personnel at the Singapore Aviation Academy to enable them manage a modern airport.¹² The Changi International Airport has also signed an agreement with the Maharashtra Airport Development Company (MADC) to provide consultancy services for the development of Nagpur Airport according to international standards. Along the Nagpur model, there are also plans to develop six other international multi-modal hubs in Amritsar, Ahmedabad, Hyderabad, Thiruvananthapuram, Kolkata and Guwahati. All these airports will be developed on the basis of public-private partnerships and will provide MRO and overhauling facilities, apart from dealing with the commercial airlines services.¹³ Therefore, India's quest to modernize its airports to the international level will open the door for aviation giants from Malaysia and Singapore that will prove to be valuable sources of technical and managerial know-how

.III CHALLENGES

Though the Indian civil aviation sector has shown an outstanding growth rate during the last few years, maintaining and realizing its economic potential would be difficult due to the following challenges. First, the idea of fifth freedom of air

agreement between India and ASEAN is akin to day dreaming, especially in the backdrop of the slow pace of evolution of an Open Sky Agreement among the ASEAN members. It is evident that ASEAN members prefer bilateral arrangements over a common Open Sky policy, despite having air transport liberalization as one of the three priority areas on the roadmap to ASEAN service trade liberalization.

Second, although India has taken several steps regarding the liberalization and privatization of the civil aviation industry, there are still some impediments to private investment. For instance, despite accepting 49 per cent FDI in non-scheduled domestic carriers, there is no provision for direct participation of foreign airlines in the domestic air transportation market. Apart from this, even though India has decided to modernize the 35 non-metro airports through the PPP route, the participation of the private sector is limited to the development of the city side of the airports, while the state-owned Airports Authority of India (AAI) has been allowed to modernize the airside of these airports, which includes a major part of the total investment. The lack of credibility in the procedure for allowing overseas flying rights to private airlines, has been criticized by some private players. Deccan Airlines' MD, Captain Gopinath went to the extent of saying that the existing conditions have "willingly or unwillingly" favored certain airlines.

Third, the reservations of the left-wing political parties and trade unions regarding the increased participation of the private sector in the process of modernization and development of airports, is the main stumbling block in the way of early implementation of the plans to restructure the country's existing civil aviation infrastructure. Therefore, due to these political sensitivities, the government so far, has avoided taking any radical steps in this regard. Recently, the issue of the closure of existing airports after the

¹¹ "Changi Airport partners with West Bengal Greenfield project," <http://www.indiaenews.com/business/20080227/100617.htm>

¹² "Decks cleared for Changi airport Express news service," <http://www.expressindia.com/latest-news/Decks-cleared-for-Changi-airport/278078/>, Accessed on 24 April, 2008

¹³ "Govt Plans To Develop 6 Multi-Modal Airport Hubs," *The Economics Times*, 30 March, 2008

new greenfield airports became operational, created a fiasco, when the CPI(M), CITU and AAI Employees Union pressurised the government to continue operations at the old airports in Hyderabad and Bangalore, even after the construction of the new greenfield airports. The government however, is bound by contract to stop operations at the old airports once the new ones become operational.

Fourth, apart from political impediments in the process of the development of new airports, the growing culture of strikes at airports is another factor which can adversely affect the future expansion plans of investors. For instance, Singapore Airlines, in March 2008, warned that it might put on hold, its plan to introduce an additional freighter to Kolkata airport, after loosing crores during the strike at the airport which stopped cargo movement in and out of Kolkata and caused some goods to rot in the warehouse. Moreover, the fine levied by the AAI against Singapore Airlines for the delay caused, which was actually the result of the strike by its own staff, further worsened the situation¹⁴. These events show that the pace of development of the Indian civil aviation industry will also be affected by the government's ability to smoothly manage the political factors in this regard. Therefore, divergent political opinions and interests of various pressure groups, could further complicate the development process of the civil aviation sector.

Fifth, continuously increasing prices of Air Turbine Fuel (ATF) have also adversely hit the domestic aviation sector in India. Although, its impact on international flights is nominal, in future it might limit the business expansion plans of some aviation sector companies.

V **CONCLUSION**

Inspired by the aviation boom in India, foreign airlines are eyeing India as a potential market and demanding greater access to Indian skies. In addition, the Commonwealth Games, scheduled for 2010, and the recent selection of Taj Mahal as one of the Seven Wonders of the World, can help pave the way for the arrival of a large number of tourists in coming days. Southeast Asia on the other hand, has also emerged as an attractive tourist destination for Indian visitors. Singapore, Thailand and Malaysia have not only become exotic holiday destinations for young Indians, but also favorable shooting locations for those in the Indian film industry.

Given the growing level of political, economical and cultural interaction between India and Southeast Asia, the role of the aviation sector has become more important and the two can no longer ignore the need for developing a mutually-beneficial framework of cooperation in the aviation sector. Although there are some problems at the present stage of negotiating a mutually-acceptable set of norms and policies because of the clash of interests among the various interest groups, the need for a heightened pace of economic interaction has the potential to push all the involved players, to look at the entire issue more rationally.

¹⁴ "Welcome To Calcutta, But Pay 'Strike Cess'," *The Telegraph*, 14 March 2008,

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