DRAFT CIVIL AVIATION POLICY CALLS FOR 2% CESS ON MAJOR ROUTES FROM JANUARY

News / Airlines

If the **Draft Civil Aviation Policy**, 2015, takes off in its original form, then fliers on major domestic routes will have to start paying **2%** more on their fares as regional connectivity fund (RCF) charge from **January** 1, 2016.

The smaller regional and underserved routes, known as Category IIA and Category III sectors, will be exempt from this levy.

Another major highlight for the domestic air travellers in the proposed policy is that fares on local destinations, which remain unserved or underserved today, would be capped at Rs 2,500 per hour per passenger.

The proposed policy, which covers wide-ranging topics including safety, regional connectivity, 5/20 rule, bilateral traffic rights, code-share agreement, airports and others, has been put up on the

Ministry of Civil Aviation (MoCA) website for feedback from various stakeholders.

The new aviation policy states in its introduction that the government wanted to "take flying to the masses by making it affordable."

"If every Indian in middle class income bracket takes just one flight per annum, it would result in 300 million tickets (fliers), a big jump from the 70 million domestic tickets sold in 2014-15," says the policy draft.

The ministry is targeting more than four times rise in the domestic air passenger number to 300 million by 2022 and over seven times jump to 500 million by 2027. It is looking to grow the number of overseas fliers to 200 million by 2027.

To boost domestic growth, the government has turned its attention to improving regional connectivity by doling out incentives to states.

For this, the policy has come out with regional connectivity scheme (RCS) that is expected to come into effect from April 1, next year.

Under this, the government was considering revival of airports and airstrips, based on demand assessment, as no frill airports with spend of less than Rs 50 crore.

Today, only 75 out of 476 airports and airstrips in the country operate schedule flights. The no-frill airports would be largely developed by Airports Authority of India (AAI). The government has proposed relaxing the 12% internal rate of return (IRR) criteria for getting them back on runway.

However, only those states that would rationalise VAT on aviation turbine fuel (ATF) or jet fuel at smaller airports and airstrips to 1% or less would be eligible for benefits under RCS.

Airlines that would begin flights under the RCS would be able to avail of a host of sops for 10 years like no airport charges, service tax exemption, free police and fire services, concessions on cost of power, water and other utilities, etc.

All this will make flying from RCS airports commercial viable for airlines and improve domestic air connectivity.

The government also wants to provide inflation and ATF indexed viability gap fund (VGF) for certain routes based on competitive bidding.

The ministry has bought itself some more time for deciding what to do with the 5/20 rule, which permits only those airlines with five-year experience and 20 aircraft to fly overseas.

The airline industry is divided on what direction the government should take on this rule. The incumbent carriers want the 5/20 rule to stay while the new airlines have been asking for it to go.

The draft policy has offered three options: first, continue with 5/20, second, do away with it and third, a rule on domestic flying credit (DFC).

Under the DFC, local airlines will have to accumulate 300 DFCs before starting flights to SAARC and countries beyond 5000 kilometre radius from New Delhi and 600 DFCs for starting flights to the remaining parts of the world.

Civil aviation secretary Rajiv Nayan Choubey said it would take the government two months to come out with a firm decision on rule.

"There will be no ambiguity when we come out with the final decision (on 5/20 rule). We want to benefit from stakeholders' inputs before we take a stand on it," he said.

Mittu Chandilya CEO & managing director, AirAsia India, expressed disappointment over government's "lack of clarity or progress" on the contentious clause even after "several months".

"Hope that is addressed at the earliest to ensure Indian aviation is seen at par with other global aviation markets," he said.

Aditya Ghosh, CEO of IndiGo Airlines, said the combination of 5/20 rule and DFC would create a level playing field.

"My option is a combination of 5/20 and DFC. Both can be unshackled. Then, it creates a level playing field. At least, now, a dialogue on these policies has started," he said.

The current 49% foreign direct investment (FDI) limit could also be raised above 50% as per the proposed policy.

Phee Teik Yeoh, CEO, Vistara – Tata SIA Airlines Ltd, said the draft was "fairly comprehensive approach" to tap India's aviation potentials.

"We are optimistic that public discourse will help shape a pro-growth, pro-business, and pro-people policy that will catalyse the PM's 'Make-in-India' vision," he said in statement issued by the airline.

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