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Preparing for Takeoff: India's Aviation Infrastructure

India's significantly improving economy and rapidly growing air transport industry have the country's government focusing on overhauling its airports' infrastructure.

■ By Lynne Clark | Ascend Staff

India's "air travel revolution," declared last December by Civil Aviation Minister Praful Patel, won a major skirmish Feb. 1 when the Indian government approved bids by two public/private partnerships pledging 184 billion rupees (US\$3.5 billion) to modernize the country's Delhi and Mumbai airports.

A consortium comprising Indian firm GMR and Fraport, a German airports operator, won the bid for modernizing Delhi's Indira Gandhi International Airport Delhi. Indian group GVK and South African Airports were awarded the Mumbai International Airport project. The airports in Mumbai and Delhi handle half the total air traffic in India — 520 and 450 flights daily, respectively. According to projections, the airports will handle three times more traffic by 2010, numbers that imply Mumbai and Delhi will be as busy as Hartsfield-Jackson Atlanta International Airport and Chicago O'Hare International Airport are today.

The Delhi and Mumbai bid victories came after more than a year of bureaucratic wrangling and political opposition to privatizing Indian airports, and more than eight years after a 1997 government report identified the need for a rapid infusion of foreign capital to update the state-run airports called a "disaster" by Hong Kong investor Marc Farber.

The wins cost Patel valuable political capital — to settle a four-day strike by airport workers in January, he was forced to promise union leaders in writing that none of the employees of the state-run Aviation Authority of India would lose their jobs. Deal opposition also came from bidders who failed to get the contracts and are now challenging the bidding process in court.

These are the types of bottlenecks the International Air Transport Association warned that the Indian air transport sector could ill afford. Speaking last October at a meeting hosted by the Confederation of the Indian Industry in New Delhi, IATA General Director and Chief Executive Officer Giovanni Bisignani said, "The

Indian air transport sector is among the most vibrant and fastest growing in the world, but it could be a much greater catalyst for economic growth if critical bottlenecks in the system are removed. The most urgent is infrastructure, particularly Mumbai airport. We need results fast, or a great start could turn into a disaster."

Growing Prosperity

The Indian economy is surging. By 2040, per capita gross domestic product is expected to be 445,000 rupees (US\$8,442), up from an estimated 36,390 rupees (US\$691) now, according to Goldman Sachs Group, Inc. Budget airlines are making travel more affordable for more Indians. In 2004, 6 million Indian tourists traveled overseas, a 15 percent increase from 2003.

Recently, India displaced the United States as the second-most-favored destination for foreign direct investors after China, according to consulting firm A.T. Kearney, Inc.

Foreign-owned factories, software companies and call centers are opening in India in unprecedented numbers, and their executives are traveling into the country more often, making the need for modern airports an urgent priority.

Clearly, market forces are overcoming incessant government meddling and stifling bureaucratic inertia, which has characterized India's airline segment. Investors are seeing this developing industry as a goldmine of opportunity. India today has the world's largest middle class of 300 million people and the fourth-largest economy, growing 7 percent annually.



Photo by Shaju John/The Hindu

The establishment of call centers, such as this one in Chennai, has resulted from the need of businesses in developed countries for cost-effective BPO services. India, where the cost of labor is lower than in developed countries, offers a more economical alternative.



A lack of modern airports has allowed only 15 million people a year to travel by air, compared to the more than 13 million who travel by intercity trains each day. India boasts many of the world's millionaires — 61,000 as of June 2004 — and more than 300,000 Indians pay for first-class rail tickets daily, costing approximately the same as many low-price air fares. The number of flights per person is only 0.014 per year, fewer than in Haiti and just a fraction of the United States and Australian rates of 2.02.

The potential is not lost on industry prognosticators. According to IATA, Indian carriers placed more than 550 billion rupees (US\$12 billion) in new aircraft orders at the 2005 Paris Air Show. Jet Airways and Indian Airlines posted profits last year, even with high fuel costs. In 1991, India had two carriers, state-owned Air India and Indian Airlines. Today, there are 11 and four more are set to begin operations.

Traffic is expanding rapidly. IATA forecasts international passenger traffic growth of 8.4 percent annually between 2005 and 2009, and as high as 12 percent when adding domestic travel. Freight is also expanding. The Indian market for international freight is expected to grow by nearly 10 percent annually during the next five years.

Infrastructure Hurdles

The market is growing. The potential is great. But can the infrastructure support the rapid growth? Detractors have decades of inertia to back them up. Aviation tourism writer Rabindra Seth said, "Airport infrastructure has always been built for yesterday, never for tomorrow."

Prior to 1990, India's aviation sector was controlled by a heavy-handed government bureaucracy and party politics that rejected free competition, foreign investment and foreign goods. Dozens of state-sponsored commissions, studies and inquiries have confirmed that the civil aviation sector was a pawn to dispense political patronage.

Overregulation and mismanagement have left a legacy of a grossly underdeveloped air transport industry plagued by delays, safety concerns, low customer satisfaction levels and operational problems. In addition to more airports, India needs more pilots, flight crew and air traffic controllers.

According to the *Business Standard*, a leading Indian financial newspaper, delays of anywhere up to an hour have become par for the course in airports such as Delhi and Mumbai. Both airports typically handle 25 to 28 flights an hour, compared to 40 per hour per runway at most international airports.

Lack of adequate runways increases airport turnaround time. Extra fuel for delayed landings and takeoffs in India may cost each air carrier nearly 7 billion rupees (US\$131 million)

annually, according to rediff.com, an Internet portal focusing on the global Indian economy.

Inadequate parking bays in Delhi and Mumbai are forcing many carriers to park their fleets in nearby metropolitan areas such as Hyderabad, Ahmedabad and Chennai. By 2010, experts predict both Delhi and



By 2010, India's government will revamp its main airports, such as the Indira Gandhi International Airport, to help relieve congestion due to increased traffic.

Mumbai will need 50 more bays. And these bays need to be bigger. The current parking bays cannot accommodate an aircraft the size of the Airbus A380.

Skies Cleared for Change

Modernizing India's airport infrastructure is a monumental task. But India's Secretary for Civil Aviation Ajay Prasad is optimistic the country's politicians have finally grasped the need for urgent reforms if the country is to take advantage of the unprecedented upsurge in its economy. He cites "blue sky" reforms currently being implemented based on recommendations of the Naresh Chandra Committee. The Chandra Committee, named for its chairman, a former cabinet secretary and respected civil servant, recently published an extensive report on problems within the aviation sector, identifying four key steps to solving them:

- Establish a level playing field and remove the extortionate tax regime via lower taxes and charges across the entire industry,
- Promote private equity participation by reducing barriers to entry,
- Strengthen the Directorate General of Civil Aviation by ensuring it is adequately manned to regulate all important disciplines such as airworthiness, flight operations and monitoring air traffic control services,
- Develop institutional mechanisms that provide support for socially desirable but uneconomic services.

The New Delhi and Mumbai deals are evidence of the government's commitment to change. In addition to these international upgrades, Unique Zurich Airport AG recently began constructing a new, privately owned airfield in Bangalore, the "Silicon Valley" of India and very soon its biotech hub. The Bangalore International Airport at Devanahal is scheduled to open in 2008.

Besides Delhi and Mumbai, the Aviation Authority of India has proposed to modernize 35 non-metro airports to world-class standards. Another 50 are being considered for improvement.

Under the proposed plan, the government will adopt a "cluster approach" where

five airports in a zone will be grouped together under a joint venture.

"Since there are many small airports in a zone that are loss making, we are going to club them with the profit-making airports in a particular zone or region," said Prime Minister Patel. "This will help fund the modernization program of the airports as well as development of all the airports that will happen simultaneously. By 2010, the work is expected to be completed."

Other short-term measures meant to clear India's runways include:

- Proposed relief packages aimed at high fuel taxes and navigation charges,
- Finalization of a long-term national civil aviation policy,
- Approval of private companies to sell jet fuel,
- Agreement allowing third-party ground handling,
- Revamping of how routes are awarded,
- Incorporating air traffic control,
- Limited open skies to cater for peak season requirements,
- Liberalizing international routes with neighboring countries comprising the 10-member Association of Southeast Asian Nations,
- A flexible approach to airport financing and easing of foreign direct investment, with 74 percent allowed without government approval for airports and up to 49 percent in airlines. Non-resident Indians can take a 100 percent stake in domestic airlines without approvals.

The government promises major structural reforms are just months away from being announced. The skies over India are worth watching. **F**

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Photo by Shanker Chakravarty/The Hindu