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# The Complete Package: India's Cargo Industry

*With 60 percent of India's cargo handled through ground transportation, air freight companies are poised to take a greater slice of the country's cargo market.*

■ By Mukundh Parthasarathy | *Ascend* Contributor

Steel. Oil. Produce. Automobiles. Livestock. Clothing. Electronics. If it can be sold, it can be shipped. A broad range of imports and exports keeps India's cargo business thriving. Today, 30 percent of the value of the country's international trade moves by air, giving air transporters a significant opportunity to tap into India's cargo industry.

With liberalization, removal of export/import controls and a buoyant economy, India's air cargo business is flourishing and set to grow by 10 percent annually. All parameters point to a favorable future due to the heightened capabilities of Indian manufacturers to compete with others and an improvement in quality and delivery schedules. Export/import volumes are likely to rise by 12 percent to 15 percent during the next couple of years, which, according to Air Cargo Agents Association of

India, is significant, though India's share in the world trade remains relatively small. Open-skies policies among countries and the elimination of quotas in the textile sector will further fuel growth in the cargo market.

The air cargo potential in India shows much promise:

- It has grown at a rate of about 12.4 percent a year during the last 10 years (domestic and international — growth by volume).
- It has a current growth rate of 18 percent.
- Its growth rate year over year in 2006 is expected to reach 20 percent.
- Its air freight traffic is expected to double by 2010, and the four metros (Delhi, Mumbai, Chennai and Kolkata) will handle twice the tonnage.

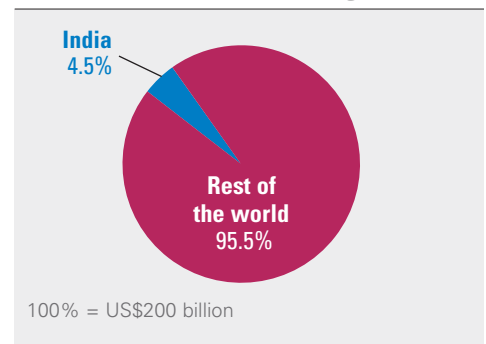
Talking about India leads to an inevitable comparison with the other Asian giant, China.

How does India compare with China's air cargo segment? The jury is still out.

In 2004, the total Indian cargo market was about 1.2 million tones while in the same year, Hong Kong airport generated 3.1 million tones, Shanghai 1.9 million, Beijing 662,000 and Guangzhou 632,000. On the whole, China's airports generate six times the tonnage of Indian airports.

For air freight volumes, the standard for emerging markets is that air freight should grow twice that of the national gross domestic product. While the Indian economy is growing

## World Air Cargo Market Percentage



### World ranking of India's airports based on air cargo traffic:

Mumbai	58
Delhi	70
Chennai	120
Kolkata	168

India currently makes up only 4.5 percent of the total global air cargo market, indicating considerable untapped potential for cargo traffic. No Indian metro airports even rank in the top 50 in the world based on air cargo traffic, whereas two other Asian airports — Hong Kong and Tokyo — are among the top five.

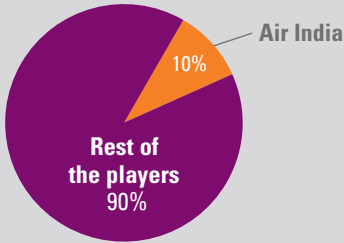


Photo courtesy of Hong Kong International Airport

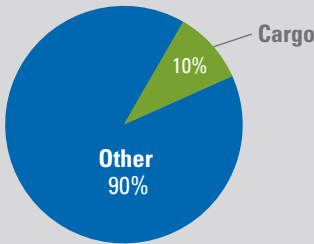
While Air India's cargo operations have contributed to the overall success of the country's freight business, they stand to face fierce competition from new local competition as well as from DHL, British Airways World Cargo, Singapore Airlines Cargo and Thai Cargo.

## Air India's Cargo Market Share

Share of Air India in the air cargo market in India (FY 2004-05)



Share of cargo revenue in the revenue for Air India (FY 2004-05)



Air India, which has 10 percent of the Indian cargo market, receives 10 percent of its revenues from transporting freight. Both figures may come under pressure as more cargo operations enter the market.

at 7 percent, the cargo traffic volumes at the three largest Indian airports — Delhi, Mumbai and Chennai — grew by just 7 percent compared to the world average of 5 percent, based on volumes from 1995 to 2004.

Looking at the traffic growth between the major airports in India, only Chennai has been growing at an average of 10 percent while Delhi and Mumbai grew by less than 6 percent.

### Key Contributors to Growth

Burgeoning trade in pharmaceuticals, textiles, gems, jewelry and perishables are key growth drivers in India.

Surging exports from sectors such as textiles, pharmaceuticals and fast-moving consumer goods have improved India's air cargo business. The sector is growing at a rate of 20 percent annually in terms of volume. The export/import policy 2004-2009 of the Indian government has set a target for the sector to improve its share in total global trade from the current 0.8 percent to 1.5 percent.

Half of India's air freight exports and imports are related to the textile industry — consumables and machinery going in, clothing and footwear coming out. A huge upside is predicted in the growth of healthcare-related shipments as Indian pharmaceutical com-

panies gain prominence, resulting from low-cost framework and abundance of well-trained scientists.

### Key Players

Air cargo has moved from a monopoly to a competitive industry in recent years. Growth in air freight services has been attracting various new and existing airlines. Apart from the two national carriers, Indian Airlines and Air India, new entrants such as GoAir and Kingfisher Airlines have proposed playing a bigger role in the Indian air freight market. This is after Blue Dart Aviation had, for several years, been the country's sole dedicated cargo airline, operating for its parent courier company, Blue Dart Express.

Air India is still India's major air carrier, but its position is threatened by new entrants as well as the aggressive strategy pursued by international carriers flying in and out of India. Major global air cargo carriers seek to tap the Indian market, and there has been a surge in interest since last year:

- DHL, which has taken control of Blue Dart, intends to emerge as the largest logistics and express cargo provider in India.
- British Airways World Cargo plans to make Mumbai and Delhi its mini hubs for Asia, expecting to double capacity and revenues from India.
- Emirates SkyCargo and Korean Air Cargo entered into a codeshare agreement for cargo capacity on two key routes — to Delhi and Mumbai.
- Singapore Airlines Cargo plans to increase services to India by almost tenfold.
- Thai Cargo plans to expand services to India.

### HIGHlight

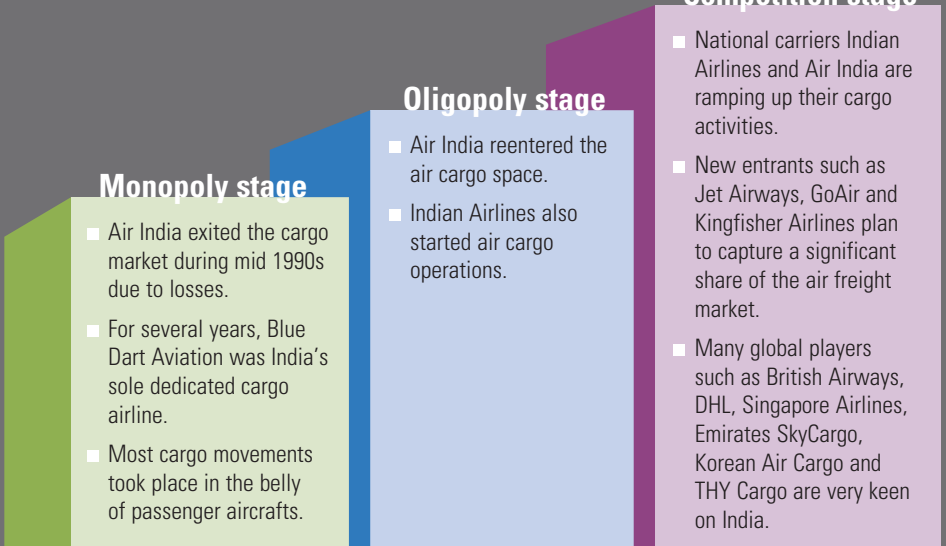
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### Indian Government's Role

The rapid growth of air traffic in India and its insufficient airport capacity is prompting the Indian government to further deregulate its civil aviation policy. The measures taken by the government to boost growth include abolition of the national carrier monopoly and continued expansion of open-skies policy. This provides incentives that attract many foreign airlines and stimulate creation of new private carriers.

The government, in a move to create favorable conditions for national and foreign airlines, has decided to abandon its high-tariff regime and reduce landing fees by 15 percent. To aid regional airport development, it has waived landing fees for aircraft carrying less than 80 passengers. Travel tax has been abol-

## From Monopoly to Competition



As the Indian government relaxes restrictions in air transport, the cargo industry will move from a pure monopoly to a more open-competition environment.



ished, and the excise duty on aviation fuel has also been reduced.

Air India and Indian Airlines, to facilitate freight movement, are converting old passenger aircraft to cargo carriers. Both Air India and Indian Airlines are creating separate divisions for cargo. The airlines are considering leasing aircraft for cargo operations. The two state-owned airlines are likely to enter the capital market early next year to raise funds. The airlines are in the process of appointing advisers for an initial public offering.

### Impact of Cargo Growth

The Indian government recognizes civil aviation as one of the pillars of economic development and employment for the future, but it will be difficult to answer whether stronger economic growth will lead to better profits for airlines.

This will depend on the new passenger capacity hitting the market. Until a few years ago, only Air India and Indian Airlines were allowed to operate international services, while foreign carriers were forced to make payments to Air India in return for traffic rights. Now that private carriers are being allowed to fly internationally, air freight rates may also come under pressure.

### Hurdles to Overcome

Inadequate airport infrastructures (see related article on page 40), security systems and outdated technology pose key roadblocks, which are stifling the growth in air cargo traffic. Approximately 50 percent of international traffic rights remain unused under the bilateral system due to airport capacity constraints. India has more than 240 airports. A large number of them are unused or underdeveloped,

whereas large metro airports such as Mumbai or Chennai are bursting with traffic and becoming congested.

The need to improve existing infrastructure at airports is increasingly being emphasized and felt. Modification plans are being executed, but analysts feel that these would not be adequate in the long term. Cargo handling and infrastructure related to movement of goods in and out of the country are limited.

Mumbai's Chatrapati Shivaji International airport, which continues to be India's major gateway for international air cargo, has two runways that intersect each other, with an average air cargo movement of 15 flights per hour. The situation is so poor that the airport faces congestion during certain times when the demand exceeds capacity. The lack of

## Top Drivers of Import and Export Goods in India (Values in U.S. \$ Million)

Export commodities	April 2003 – March 2004	April 2004 – March 2005	Change	Weight
Petroleum: crude and products	3,568.44	6,792.14	90.34%	8.57%
Gems and jewelry	10,573.38	13,705.43	29.62%	17.29%
Machinery and instruments	2,776.3	3,493.06	25.82%	4.41%
Drugs, pharmaceuticals and fine chemicals	3,310.73	3,712.57	12.14%	4.68%
RMG cotton (including accessories)	4,789.66	4,567.2	- 4.64%	5.76%
Import commodities	April 2003 – March 2004	April 2004 – March 2005	Change	Weight
Gold	6,516.93	10,259.33	57.43%	9.58%
Petroleum: crude and products	20,569.60	29,844.10	45.09%	27.87%
Machinery (except electrical & electronic)	4,743.59	6,550.64	38.09%	6.12%
Pearls, precious and semi-precious stones	7,128.70	9,423.45	32.19%	8.80%
Electronic goods	7,506.18	9,739.04	29.75%	9.10%

## India's Top Export and Import Destinations (Values in U.S. \$ Million)

Export country	April 2003 – March 2004	April 2004 – March 2005	Change	Weight
Singapore	2,124.84	3,795.51	78.63%	4.79%
People's Republic of China	2,955.1	4,586.28	55.2%	5.79%
United Arab Emirates	5,125.61	7,098.14	38.48%	8.96%
United States of America	11,490.11	13,265.6	15.45%	16.74%
Hong Kong	3,261.83	3,651.33	11.94%	4.61%
Import country	April 2003 – March 2004	April 2004 – March 2005	Change	Weight
United Arab Emirates	2,059.85	4,581.96	122.44%	4.28%
Switzerland	3,312.75	5,817.92	75.62%	5.43%
People's Republic of China	4,053.23	6,746.66	66.45%	6.3%
United States of America	5,034.86	6,291.49	24.96%	5.88%
Belgium	3,975.92	4,566.29	14.85%	4.26%



Photo by K. K. Mustafah/The Hindu

Surging exports in various segments have improved India's air cargo business to US\$9 billion. Booming trade in certain key industries — such as pharmaceutical, gems and jewelry, dyes, machinery, textiles, perishables, engineering, auto parts and chemicals — has fueled much of the growth.



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availability of land for further growth limits the scope for expansion.

The India cargo industry has proposed that the second airport at Mumbai should be a cargo hub so existing cargo operations can be shifted to the new location, which many of the country's cargo transporters favor. Also, a mechanized transit cargo terminal is proposed to be located at the airport. In addition, there is greater need to strengthen security check points, closed-circuit television checks, security audits and test checks using undercover agents.

Most of India's systems are legacy, which do not conform to latest technology. Additionally, most systems are manual and need automation. This is all the more surprising given the fact that software has been India's major growth industry during the last decade. Airlines operating into India do not

accept advance sale of space or a neutral air waybill, two important features of any cargo system or portal, mainly because there is no legal framework for this because India is governed by the Warsaw Convention.

After weighing all the parameters affecting the Indian air cargo market, there is still a vast untapped potential in India, which currently accounts for a mere 4.5 percent of the total world air cargo market while the country moves toward becoming the third-largest economy in the world behind the United States and China. Indian metro airports do not come even under the top 50 in the world based on air cargo traffic, whereas two other Asian airports are among the top five — Hong Kong and Tokyo. So all signs are promising, and there is cautious optimism about India becoming an airfreight hot spot. **F**

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