

Should foreign airlines be allowed to invest in domestic aviation? Business Standard / New Delhi November 2, 2011, 0:58 IST

The move will enhance competition and benefit consumers, but it will put a booming sector at a disadvantage.

DEBATE



AMRIT PANDURANGI

Senior Director, Deloitte Touche Tohmatsu Pvt Ltd

There is no need to 'protect' any airline in the domestic industry — we already have enough of it and it is really time we reduced that protection

Ever since we opened up the skies and thanks to our good economic growth, India is one of the very few countries that still have healthy double-digit growth in the domestic aviation market. This is also one sector in which private participation – in both the airlines and airports sectors – has benefited customers immensely. Liberalisation has helped and we can showcase this industry as a success of our policies. The only lesson one can learn from successful liberalisation should be that we should go for more liberalisation. Isn't it ironic, therefore, that we successfully go for open skies to make flying more accessible and affordable but continue this strange debate of whether or not we should let foreigners (foreign airlines in particular) be part of the game.

Stopping foreigners will not only not get us any benefits, but it may also unnecessarily take away some of what customers always want — good service at affordable prices. There is no need to “protect” any airline in the domestic industry — we already have enough of it and it is really time we reduced that protection. One can well ask why taxpayers' money should be used to “protect” private players whose troubles are not caused by taxpayers at all.

We need strong experienced players whether they come from domestic or international origins and we need to ensure that there is fair competition between them and they are well regulated on the services they provide. We certainly don't need or want weak players who can't invest, who don't have “real” experience and whose intent on service and safety are always in doubt. We have excellent domestic players who have shown that high-quality service and affordable prices do indeed work wonders. We may get one or two more such players if our doors are open, wider the better.

As always, the opponents to opening up would raise the bogey of “national security” issues if we get international airlines to own majority of any airline operating in the domestic space. I don’t understand what the big security issue here is. If international airlines can fly in and out of all our international airports (and we have plenty of them these days), what is the problem with them owning parts of domestic airlines? If you are worried about ownership by one or two particular countries, then please put a ban on those one or two rather than use that excuse to keep the door closed.

What may happen if we open the doors to more investors and operators to enter and own more existing domestic airlines or even start new ones altogether is that we will, hopefully, have stronger and more experienced players. And that will invariably benefit the customer. Competition will be greater and, hopefully, more rational. Also, we won’t have inexperienced short-term players grabbing market share by pricing tickets that bring down industry profitability (which also prompts all airlines to make a quick buck when there is a demand surge and take prices to the skies).

It is possible that some of the existing weak domestic players (especially those with a short-term outlook) will die a natural death or get taken over by a stronger player. But isn’t that desirable from a customer point of view? It is better to have good quality, reasonably priced and safe airlines whether they are domestically-owned or owned by international airlines than try to control the bad behaviour of airlines through mandated regulations.

It would, however, be desirable that a decision to open up be announced now, explaining the full rationale for the decision and allowing for a roll-out from, say, a year ahead. This will give everyone – incumbents and newcomers – breathing space and time to prepare for the opening up. It will also clearly signal that the government has thought through this issue and has definitive long-term views on it. Such policy changes should always be done in a planned and comprehensive manner.



SANAT KAUL

Chairman, International Foundation for Aviation, Aerospace and Development*

We have enough capital and expertise available. Mistakes by some airlines need local solutions and not a sell-out to foreign airlines

Cabotage has been defined by the Concise Oxford Dictionary as “coastal trade” and “reservation to a country of (esp air) traffic operations within its territory”. Most countries do not allow coastal shipping as well as domestic air traffic by foreign operators. The European Union (EU) is a different case since it is emerging as a single nation with common laws, single sky and even common air-traffic agreements as a quasi-sovereign entity. They allow intra-EU domestic aviation by airlines registered within the community but not outside. We, therefore, cannot take EU as an example. But no other major country (except for Australia) allows foreign airlines to operate domestically or even allows foreign airline ownership in domestic carrier. Article 7 of the Chicago Convention, 1944 of Cabotage also states that a member country should not enter into any arrangement that specifically grants any privilege on an exclusive basis to any other state or an airline of any other state. However, there is a sudden demand in India to open our domestic airlines to foreign airline ownership or part ownership on a unilateral basis when similar facilities are not available for us in other countries.

Globalisation has its merits. But why should we allow our domestic nationally-owned airlines to be even part-owned by foreign airlines, specially when the future of our domestic aviation sector is looking so bright? One argument is that we need to raise capital abroad. However, this argument is met by the foreign direct investment (FDI) norms that allow foreign capital (not airline) up to 40 per cent. SpiceJet had an investment of about \$80 million from Wilbur Ross. External commercial borrowing is another option.

Coming to domestic aviation, we see that it is a healthy sector with very major prospects of high growth. It is also true that negative government policies like excessive taxation and fees in direct or indirect form, the high price of aviation turbine fuel (ATF) and absurd levels of sales tax on ATF (as much as 30 per cent) are impacting profits. It is these aspects that need correction, not allowing foreign airline ownership in our domestic routes, which will solve problems of airline profitability — an issue of our own creation.

We see today that the airline sector in India is divided into Legacy and Full Service Carrier model on the one hand and the new Low Cost Carrier (LCC) model on the other. LCCs have become dominant, and it is the Full Service Carriers that need to reinvent themselves. Air India is a classic example of what is wrong in a legacy carrier, Kingfisher is another.

Another aspect of foreign airline ownership of a domestic fleet is the strategic importance of this sector. It may be recalled that in October 1947 India organised the biggest airlift in the world at that time in moving troops

to Srinagar when Pakistan was sending irregulars by land. The Indian Air Force, still under British officers, showed its inability to provide the aircrafts. All private airlines (about 17 of them) were requisitioned to supply aircraft for troop movement. If the strategic ownership of domestic fleet falls into the wrong hands, serious security implications can arise.

Finally, is there a real need for it? We have enough capital and expertise available and such expertise can be bought also. Mistakes by some airlines need local solutions and not a sell-out to foreign airlines.

In conclusion, the liberalisation of domestic aviation with permission to allow in part or full foreign airlines ownership is perhaps not the best option for India at this stage. It will be handing over a booming industry to foreign ownership when it is not required.

**India Chapter*