



GOVERNMENT PLANS TO PUSH AVIATION INFRASTRUCTURE DEVELOPMENT

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The Indian Government is planning to build 10-15 new Greenfield Airports and modernize 50 others in metro cities as discussed in the 49th Conference of Directors General of Civil Aviation of Asia-Pacific region in New Delhi on October 08, 2012. The civil aviation minister said that Government now permits up to 100% FDI in Greenfield airports. The basis of this move is that middle class is growing, trade is expanding and India should achieve at least six per cent GDP growth now. There may have been a temporary setback, but air traffic is expected to grow substantially.

PSA View – This step calls for the formulation of a stable, transparent and investor-friendly regulatory regime for resolution of issues. Suggested reforms include- Greenfield Airport Policy to encourage investment in Greenfield Airports, Approval policy for Greenfield Airports to promote private developers. The policy should also address ‘Land acquisition for development of infrastructure’. Also, enhance coordination between the Civil Aviation department and the defense authorities to meet the safety requirement. If such issues are not addressed the plan is likely to result in yet another setback for the Aviation Industry.

Probable delay in FDI in Aviation despite removal of restriction

Even though restrictions on FDI in the aviation sector have been removed by the Department of Policy and Promotion September 20, 2012 onwards, experts are of the view that foreign airlines will take time to invest in Indian airlines due to high taxation and policy instabilities in India. Among others factors high cost environment, insufficient infrastructure and crippling taxes need to be comprehensively addressed within a coordinated government-wide policy framework. The economic downturn is also a factoring issue for foreign airlines not jumping into such a situation. International Air Transport Association (“IATA”) and Centre for Asia Pacific Aviation (“CAPA”) are both of the opinion that it will be a matter of time before foreign airlines start investing in Indian airlines.

PSA View – As much as we would like to deny the above, it stands true. Foreign airlines are being very skeptical in investing in Indian airlines though most enthusiastic response has been from the Gulf airlines, Etihad and Qatar. In order to lure more foreign players to invest in India, the Indian government will have to address issues pertaining to taxation, cost effectiveness and policy framework regulating the aviation industry.

Auctions for airport slots – a possibility in the near future

The government is continuing to tread the reform path pursuant to the recent change in the FDI cap in the aviation sector. The latest policy change under consideration is auction for peak-time landing slots under the new air policy. Therefore, if implemented, the airlines flying into India will be required to auction for the heavy traffic time landing slots.

PSA View — Presently, landing and take-off slots are allocated on an ad-hoc basis in India. With the increase in aviation traffic over the past few years, managing landing and take-off in an unplanned manner is certainly not a good practice. It can be difficult and also a risky affair. Therefore, auction of peak-time slots may ease airline traffic and result in better control and regulation.

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