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## Mains Practice Questions

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**Q.** Examine the reasons for brewing troubles in aviation sector of India alongwith probable solutions that can be effected. (250 words)

02 Apr, 2019 GS Paper 3 Economy

**Approach:**

- Briefly introduce the potential of Indian aviation industry through relevant data.
- Enlist and analyze the challenges faced by the sector.
- Provide probable solutions.

**Answer**

**Introduction:**

- According to the Directorate General of Civil Aviation, India's air passenger traffic has grown by at least 16% annually over the past decade. India is now the third largest aviation market in the world after the US and China.
- However, despite that aviation industry is facing challenges with large airlines like **Jet airways** and **Air India** facing losses and mounting debts.

**Body**

**Challenges in aviation sector:**

- **Depreciation of Rupee:** About 25-30% of their costs, excluding fuel, are denominated in dollar e.g. aircraft lease rents and maintenance costs, ground handling and parking charges abroad. Rupee depreciation means higher outgo and lower margins for airlines.
- **Aviation Turbine fuel high cost and taxes:** due to high taxes by centre and states. The Centre charges 14% excise duty on ATF. The states pile on their own sales tax that can go as high as 29%, whereas competing hubs like Dubai and Singapore charge far lower rates. Consequently, ATF charges, vulnerable to currency movements, comprise a large chunk of Indian airlines' operating expenses—some 40% compared to 20% for foreign carriers.
- **Difficulty in raising flight ticket price:** the intense competition among domestic carriers, the need to capture a slice of the ever expanding market and passenger price sensitivity will make it difficult for airlines to raise ticket prices.
- **New civil aviation policy, UDAN:** the ticket price caps it imposes under the scheme, the fact that the viability gap funding will last only for three years and various operational issues, such as the lack of slots for connecting flights at major airports are leading to major losses for airline companies.

- **High Capital expenditure and consequent debt:**
  - Heavy capital expenditure(e.g. buying planes) for acquisition and maintenance costs to keep up with market growth. Ex: Boeing estimates a need for over 1,700 planes over the next two decades.
  - Carriers like SpiceJet and IndiGo have done well to clear debt off their books in recent years. But when future capital expenditure cycles run concurrently with high oil price spikes and currency movements, they will face financial difficulties.

**Solution:**

- Reduce taxes on ATF to sustainable level at internationally accepted level.
- Airlines can reduce their currency risk by using hedging against dollar.
- Consolidation in industry similar to telecom can strengthen aviation industry e.g. Air India was proposed for disinvestment, however disagreement over price caused government to postpone sale. Government should fast track sale of the loss making airline.
- The cap put on the ticket prices by Regional Connectivity scheme needs to be reconsidered in light of escalating cost for airlines.

**Conclusion:**

Aviation industry is crucial for fast connective as well as generation of employment in the sector. Thus the challenges to sector need to be tackled through effective policy changes.