



## Boosting Regional Air Connectivity

“The article is based on [Giving wings to better air connectivity](#) that was published in The Hindu on 27<sup>th</sup> August. It talks about the policy measures to boost domestic civil aviation sector and the challenges associated.

### Context

- **Civil Aviation**, being a **central subject**, gets little attention from states. It is evident from the fact that very few States in India have active civil aviation departments.
- The Regional Connectivity Scheme, [Ude Desh ka Aam Naagrik \(UDAN\)](#), has become a game changer as this flagship programme has a built-in mechanism to develop stakes of State governments in the growth of the sector.
- The penetration of [aviation market in India](#) stands at 7%. There is potential to be among the global top three nations in terms of domestic and international passenger traffic.

### Key Policy Intervention through UDAN

- **Reducing VAT on Air Turbine Fuel (ATF)**
  - For any airline in India, the cost of ATF forms about 40% of the total operational cost. States have very high rates of value-added tax (VAT) on ATF - sometimes as high as 25% - which has dampened the growth trajectory of civil aviation.
  - UDAN has motivated State governments to reduce the VAT on ATF to 1% for the flights that are operated under this scheme.
- **Development and Management of airports:**
  - There are many regional airports which can be developed by States on their own or in collaboration with the Airports Authority of India (AAI). For this, different [public-private-partnership \(PPP\) models](#) can be leveraged to develop infrastructures.
  - Under UDAN, the Union government, with the help of the States, has operationalised 24 unserved airports over the past two years; 100 more are to be developed in the next five years.
- **Developing air services in the remote regions:** Areas which cannot be connected meaningfully by road or rail have to be linked by air.
  - Incentives by state governments in the form of financial support such as **VAT reduction; sharing of viability gap funding with airlines**, and non-financial incentives such as **providing security and fire services free of cost to airport operators** is required.
  - Under the UDAN scheme, the Union government has declared **concessions on excise duty on ATF** and made **budgetary allocations for airport development**.

### Challenges associated with regional Air Connectivity

- **Reluctance of some states in giving up tax concessions on ATF** and other financial incentives to attract airlines to operate in relatively underdeveloped regions.
- **Land acquisition** is a major problem due to land scarcity and huge capital requirement.
- Policy reluctance due to **financial non-viability of the models** to connect remote areas.

- **Capital intensive** nature of airline industry disincentivizes the airlines to start operations in such areas where there is lack of enough passengers traffic to make them profitable.
- **Fundraising for Viability Gap Funding (VGF)** is a major challenge.

## Way forward

- **Proactive role of states** is necessary to boost regional air connectivity. They need to create a conducive business environment to facilitate the strong aspirations of a burgeoning Indian middle class to fly.
- States **need to think in the long run**. For those who are apprehensive of revenue loss should see that the losses, if any, can be offset by enhanced economic activities as a result of increased air connectivity to the region.
- States may **converge their relevant schemes** relating to tourism, health, and insurance for supporting air connectivity to supplement the objectives of regional connectivity.
- **Developing airports, incentivising airlines and pooling resources of both the Union and State governments** can accelerate the harmonised growth of the Indian civil aviation sector which would be equitable and inclusive.

### ***Drishti Input***

“Discuss the challenges and opportunities in India’s domestic civil aviation sector by highlighting the policy interventions through Regional Connectivity Scheme- UDAN.”