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Boosting Regional Air Connectivity

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"The article is based on **Giving wings to better air connectivity** that was published in The Hindu on 27th 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.”