

BUDGET 2022 CALL TO ACTION FOR AVIATION INDUSTRY



Budget 2022- Call To Action for Indian Aviation Industry

ROHIT TOMAR

Managing Partner

Caladrius Aero Consulting LLP



While making a sincere effort to recover from pandemic after-shock, the aviation industry is anxiously awaiting a miracle outcome from the Union budget. With tremendous potential and significant growth prospects, the Aviation industry needed maximum support and encouragement from the Government to stand back on its feet and take wings.

Regarding the aviation sector, India stands on a solid 10th place globally with a market share of USD 16 billion and counting. The Airport Authority of India has planned investment in airports under the UDAN scheme up to USD 6.5 billion by 2023. AAI has committed an investment of approx. USD 1.5 billion in the up-gradation and expansion of existing airports. The Government has initiated multiple infrastructure plans to prepare for capacity expansion.

Last year was full of highs and lows for the aviation sector as it has started recouping from the impact of 1st wave of the pandemic. The industry is now anxiously hoping the third wave is a mild one triggered by the omicron variant and won't do much damage.

PANDEMIC-HIT AIRLINES ARE SORE AND BLEEDING CASH

Removal of Traffic disruptions

Lockdowns, shutting of international borders, and pin-drop silence at airports led to many airlines filing for bankruptcy globally. The Government needs to do damage control and fast to avoid the airlines in our country facing the same fate. One of the most significant expectations is to regulate the air traffic movement and give the airlines notice to readjust their operations. Currently, there is tremendous uncertainty regarding operating capacity allowed in the country and for international travel. This uncertainty hurts airlines' capacity expansion plans and leads to a setback in their plans to increase flights to newer locations.

Removal of Fare Caps

Airline industry experts feel it is high time for the Government to remove the cap on prices of airline tickets and allow the airlines to set the prices of tickets. The Government introduced fare caps to prevent the airlines from charging exorbitant fares to passengers. Although the introduction of fare caps has played a pivotal role in the survival of some weak airlines, it has also limited the ability of airlines to incentivize air travel to get their engines running again.

ATF to be brought under GST

Airline expenditure on the ATF accounts for more than 40 percent of the operational cost. The ATF prices have been increasing steadily over the years, with a recent hike of 4.2 percent on 16th January 2022.

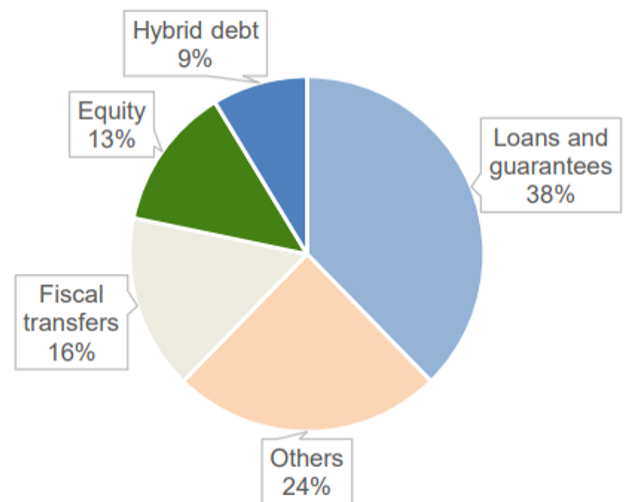
Airlines have demanded that ATF needs to be brought under the GST gambit for the last couple of years to make air travel viable for stakeholders. Last week, IndiGo CEO Ronojoy Dutta urged finance minister Nirmala Sitharaman to bring down excise duty on jet fuel from the current 11 to 5 percent. Mr. Dutta also opined that the Government should bring aviation turbine fuel (ATF) under the GST and eliminate the customs duties on repair parts. "A rationalization of taxes will result in explosive growth for aviation, which will have multiplier effects throughout the economy, stimulating commerce and employment and integrating the different regions of our diverse country closer together," he further added.

PANDEMIC-HIT AIRLINES ARE SORE AND BLEEDING CASH

Government Support

Now is the right time to offer the aviation sector a helping hand. Many countries across the globe have provided financial support for their airlines for continued operations. The graph shows the result of a survey conducted by OECD showing the percentage of amounts disbursed by governments.

The combined value of all kinds of support in the 26 countries was EUR 122 billion.



State Support to the Air Transport Sector: April 2021

United States, Germany, Spain, France, and Japan top the list of nations that received combined support measures from the Government. The airlines in the United States received about EUR 32 billion through the CARES Act. In Germany, the Economic Stabilisation Fund has been established with a broader mandate to counteract the economic impact of Covid-19. The governments of France and the Netherlands have made large loans and loan guarantees available to Air France/KLM. Similar measures need to be taken by the Government of India to stabilize airline operations in post-pandemic recovery.

"The airlines in the United States received about EUR 32 billion through the CARES Act."

CRITICAL REVIEW OF UDAN SCHEME

The Government needs to critically re-look at the UDAN scheme, and the significant airport investments promised under the UDAN scheme. While the number of airports has been adequate, the number of flights operating on these airports has not been enough to create an economically sustainable model.

The last year's Union Budget also featured key announcements about asset monetization and privatization of 6 to 10 airports. This year the Government may take forward the asset monetization initiative and announce the privatization of more airports to attain MoCA's goal of building 100 airports by 2024. The Government might also add new routes to the Regional Connectivity Scheme to boost tourism and improve connectivity with remote airports.

Exceptional Support for Airlines in Regional Connectivity scheme

Many investors have infused funds to start smaller airlines on the premise of the regional connectivity scheme; however, they were battered by the pandemic wave as they had not reached enough scale to make profits. These smaller airlines were largely dependent on Government revenue to continue operations. Due to COVID-19, the Government has cut down on regional connectivity disbursements paid to these airlines. Now the time has come for the Government to re-look at such airlines and start supporting them.

Strengthen the Aircraft Leasing financial structuring at IFSC

It is not news that Aircraft Leasing in IFSC in India has garnered significant international attention within the aviation community. The Government has worked swiftly along with the ministries and the IFSCA to create harmonious frameworks to attract substantial capital in India in Aircraft leasing. The success of REITS and InVits in recent years serve as a good benchmark for investors to look at similar listing structures for Aircraft as assets, which are prevalent across the globe.

With the above in mind, the Government now needs to engage in strategic financial structuring to attract international debt players to back the aircraft investments in India. Learning from the success of Hong Kong, Aircraft leasing players in IFSC and international aircraft investment firms would like the Government to strengthen the domestic banking sector by exposing the domestic banking industry to Aircraft as an asset class. The Government needs to create an anchor financing institution that will act as a lender and fund-raiser for domestic and international bankers to participate in aircraft leasing transactions over the next 3 to 4 years.

At the regulatory level, IFSCA would need to allow regulations to create pass-through Special purpose vehicle companies for lessors to hold assets akin to the structures used in Ireland, Singapore, Hongkong, and China.

FOCUS ON MRO INDUSTRY STRATEGICALLY

The MRO industry is essentially a neglected industry in India. Not only is the Indian MRO industry suffering from an inability to gain capability, but there is a complete lack of clarity from the Government to chalk out the growth plan in the MRO sector over the next 5-10 years.

Government airline bailout package – A boon for foreign MROs

If the Government does decide to provide a bailout package either directly or indirectly to the airlines in India, most of these government funds will get distributed to International MROs including the engine OEMs. This situation could have been avoided if the Indian MROs had the capabilities in-country.

It is thus an indirect bailout to the foreign MROs. The foreign MROs have already got a bailout package from their governments.

A closer look at one of leading MRO's in India Lufthansa Technik and Lufthansa Group quarterly financial reports highlight that Lufthansa Technik and LSG has received loans of up to USD 93 million from US Cares Act I-III.

By focusing on building the consumption side, i.e., the airlines, and not the supporting infrastructure, the Government has indirectly benefited the foreign MROs instead of the Indian MROs.

Indian MROs understand the challenges of the Indian aviation industry and fully support the need to give them a bailout package.

However, it would be important for the Government to link any bailout package given to airlines to their committing capability development of Indian MROs.

The airlines must impress upon the OEM to provide maintenance data/tools and equipment/training during purchase transaction of Aircraft.

OVERALL, THE GOVERNMENT NEEDS TO DEVELOP A CAPITAL SUPPORT BUDGET FOR THE AVIATION SECTOR TO BREATHE LIFE IN THE SECTOR AGAIN

!!Most of the government bailout funds will get distributed to International MROs including the engine OEMs!!

Lufthansa Technik and LSG has received loans of up to USD 93 million from US Cares Act I-III.