

# IMPACT OF RCS ON INDIAN AVIATION & ECONOMY

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**Abstract:** The Ministry of Civil Aviation (MoCA), Government of India released the National Civil Aviation Policy 2016 (NCAP 2016). One of the objectives of NCAP 2016 is to “enhance regional connectivity through fiscal support and infrastructure development”.

RCS (Regional Connectivity Scheme), an initiative by Government of India through the MoCA (Ministry of Civil Aviation) is officially called as UDAN (Ude Desh ka Aam Naagrik). The objective of UDAN is "Let the common citizen of the country fly", and aimed to make air travel to India's tier II and tier III cities affordable to the aam aadmi

The idea is to put smaller cities and remote regions on the aviation map, by getting domestic airlines to fly more regional routes. At the beginning of the scheme, out of total 486 airports, 406 were participating unserved airports, 27 well-served airports out of 62 non-RCS airports and 12 operational out of 18 participating underserved regional operational airports (Nov 2016) with regular fixed-wing scheduled flights. Scheme will add to this number by expediting the development and operationalisation of India's potential-target of nearly 425 unserved, underserved and mostly underdeveloped regional airports with regular scheduled flights.

This study highlights some of the opportunities and challenges of the RCS (Regional Connectivity Scheme), which are directly or indirectly impacting the Indian aviation (mainly airlines and airports) sector and economy in terms of infrastructure, job and investment opportunities for airlines and investors.

**Keywords:** National Civil Aviation Policy, RCS (Regional Connectivity Scheme), airlines and investors.

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## 1. INTRODUCTION

The Ministry of Civil Aviation (MoCA), Government of India released the National Civil Aviation Policy 2016 (NCAP 2016). One of the objectives of NCAP 2016 is to “enhance regional connectivity through fiscal support and infrastructure development”.

NCAP 2016 also seeks to sustain and nurture a competitive market environment in the civil aviation sector. While it would be best for growth in the sector and establishment of regional air connectivity to materialize through open market mechanisms in terms of airlines assessing demand on various routes, developing networks through deployment of appropriate capacities & technologies, infrastructure developing in sync with demand, etc. it was felt that facilitating / stimulating regional air connectivity would be desirable from a public policy perspective and may need financial support, at least in the initial period, to trigger participation of players. It is in this context that NCAP 2016 provides for a Regional Air Connectivity Scheme (RCS or the Scheme).



In line with NCAP 2016, the Scheme will be applicable, subject to periodic review, for a period of 10 years from the date of its notification by the MoCA.

### 1.1 Objective of RCS:

RCS (*Regional Connectivity Scheme*), an initiative by Government of India through the MoCA (Ministry of Civil Aviation) is officially called as **UDAN** (*Ude Desh ka Aam Naagrik*). The objective of UDAN is "Let the common citizen of the country fly", and aimed to make air travel to India's tier II and tier III cities affordable to the *aam aadmi*. This is envisioned under RCS by supporting airline operators through:

1. concessions by Central Government, State Governments (reference deemed to include Union Territories as well, unless explicitly specified otherwise) and airport operators to reduce the cost of airline operations on regional routes / other support measures and
2. financial support (Viability Gap Funding or VGF) to meet the gap, if any, between the cost of airline operations and expected revenues on such routes.

The idea is to put smaller cities and remote regions on the aviation map, by getting domestic airlines to fly more regional routes. At the beginning of the scheme, out of total 486 airports, 406 were participating unserved airports, 27 well-served airports out of 62 non-RCS airports and 12 operational out of 18 participating underserved regional operational airports (Nov 2016) with regular fixed-wing scheduled flights. Scheme will add to this number by expediting the development and operationalisation of India's potential-target of nearly 425 unserved, underserved and mostly underdeveloped regional airports with regular scheduled flights.

## 2. IMPORTANCE OF RCS FOR INDIAN ECONOMY

As the Indian economy grows, consumption-led growth in populated metros is expected to spill over to hinterland areas. This is also expected to be on account of factors of production (land, labor, etc.) becoming costlier in the densely populated metro cities. In this scenario, air connectivity can provide required impetus to the economic growth of regional centers (towns / cities).

As per an ICAO study - "Economic benefits of civil aviation: ripples of prosperity", the output and employment multipliers of aviation are 3.25 and 6.10 respectively. This implies that every 100 Rupees spent on air transport contributes to 325 Rupees worth of benefits, and every 100 direct jobs in air transport result in 610 jobs in the economy as a whole. In fact, the study attributes over 4.5% of the global Gross Domestic Product (GDP) to civil air transport.

### 2.1 RCS for Common Man:

UDAN gives flyers a chance to fly to and from far-flung airports like Hubballi and Baldota in Karnataka, Burnpur in West Bengal, Darbhanga in Bihar, Hissar in Haryana, Kannur in Kerala and Thanjavur in Tamil Nadu, to name just a few.

UDAN also makes travel to remote cities quite affordable. It connects city pairs such as Azamgarh in Uttar Pradesh to Delhi three times a week at maximum fares of Rs.1,650, Cooch Behar in West Bengal to Guwahati in Assam at fares up to Rs.1,570, and Burnpur to Guwahati for up to Rs. 2,570 for the seats to be sold under the scheme.

Latest by June this year, passengers can hop on for helicopter rides from Almora to Pantnagar or from Mussoorie to Dehradun at fares up to Rs.2,480. Air travellers, airlines, helicopter operators and the economy as a whole should benefit with the enhanced air connectivity that UDAN seeks to provide.



### **3. IMPACT OF RCS ON INDIAN AVIATION INDUSTRY**

#### **3.1 Development of the Airport Infrastructure:**

The scheme has two components. The **First component** is to develop new and enhance the existing regional airports to increase the number of operational airports for the scheduled civilian flights from 70 (in May 2016, total 98 operational including civil enclave or army airports) to at least 150 airports (by December 2018) with regular scheduled flights. Initially more than 100 underserved (no more than 7 scheduled flights per week) and unserved regional airports will be developed by December 2018. Out of total 70 airports included in round-I, 43 are regional airports to be newly operationalised.

The **Second component** is to add several hundred financially-viable capped-airfare new regional flight routes to connect more than 100 underserved and unserved airports in smaller towns with each other as well as with well served airports in bigger cities by using (VGF) where needed. Initially, three separate rounds of bidding for the award of routes will be concluded by the end of 2018.

After the second round of bidding in UDAN, air travellers can now fly with known names such as Jet Airways, IndiGo and Pawan Hans to far-flung places. In all, 109 regional airports and 31 heliports are set to be connected by air transport.

#### **3.2 Opportunity to Existing and New Airline Operators:**

Already 2 rounds of bidding are successfully conducted but the routes awarded under 2<sup>nd</sup> round of bidding are yet to be operationalized by the airlines. Union government share of VGF is from the cess applied to flights to popular routes to main cities and respective state governments have also offered additional benefits to the flight operators to make UDAN-RCS viable.

**RCS-I** concluded in April 2017, 5 airlines companies were awarded 128 fixed-wing flight routes to 70 airports, taking the number of total number of operational airports with civilian scheduled flights to 106 and total 131 airports operational with civilian and army operation including dual use airports. RCS routes issued to Selected Airline Operators in 1st Round Bidding are given below:

1. Airline Allied (Air India)
2. Air Odisha
3. SpiceJet
4. Turbo Megha Airways
5. Deccan Charters

**RCS-II** results awarded in late December 2017, from among the 141 proposals received for 502 new regional routes from 17 airlines and helicopter companies to operate flight services. RCS routes issued to Selected Airline Operators in 2nd Round Bidding are:

1. Pinnacle
2. Turbo Aviation
3. Maritime
4. Heligo
5. Zoom Air
6. Skyone
7. Pawan Hans
8. Jet Airways
9. Indigo
10. AAA Aviation
11. Turbo Megha

*(for details of the routes you may visit [aai.aero](http://aai.aero))*

As you would notice that only 3 established scheduled operators participated in RCS-I and 2 operators are new entrants in scheduled airline services. Similarly in RCS-II out of 11 selected operators, 8 operators are new in scheduled airlines segment. Though most of these new entrants are well established non-scheduled operators in India but through RCS they could enter into schedule airline segment. This also includes the 3 helicopter operators in RCS II, which were not there in RCS-I, due to insufficient VGF for helicopter operators that time.

### **3.3 Financial & Operational Support for Growth & Sustainability of the Airlines:**

Under the initiative, airlines will have to sell some of their seats (9-40) at no more than Rs 2,500 per hour of flying, and up to 13 seats for helicopters at the price of not more than Rs. 4900 of flying for 1 hour; for which they will be compensated by the VGF.

VGF is provided to support the viability of operations and above that exclusive rights for operating on the specific routes are offered for 3 years of operations. VGF rates for RCS-I and RCS-II can be referred at [aai.aero](http://aai.aero). In RCS-II, the VGF for helicopter operations were increased about 60% to attract the helicopter operators for priority areas (J&K, Uttrakhand, North-East and Islands).

Other benefits like reduction of VAT/GST/Excise Duty of ATF (Air Turbine Fuel) (limited to 2%) is offered along with zero charges for Terminal Navigation Landing Charges (TNLC) by AAI (Airports Authority of India) and 42.50% discount on Route Navigation and Facilitation Charges (RNFC).

### **3.4 Higher demand of Aircraft, Hence More Jobs & Growth in Indian Aviation:**

Airbus recently announced that India would require 1750 aircraft in next 20 years. Given the current status of orders/plans by the Indian airlines, India is set to import about 1000 aircraft in next 10 years. Such as IndiGo 448 (399 A320s and 49 ATRs by 2028 to its existing 150 aircraft), SpiceJet 157 (107 B737-800s and 50 Bombardier Q400s during the 2018-2023 period to its existing 57 aircraft), GoAir 119 (A320 during 2018-2022 to its existing 34), Jet Airways 81 (B737-8 MAX planes during 2018-2024 to its existing 107), AirAsia 60 (by 2025 to its existing 14), Air India 19 (3 B777-300ER and 16 A320 planes by March 2019 to its existing 155), Zoom Air 19 (5 CRJ-200 and 14 CRJ-900 planes to its existing 2), Vistara 5 (to its existing 17) and TruJet 6 (ATR72-500/600 during from 2018-2022 to its existing 4).

As an industry average, each aircraft to employee ratio in an airline is 1:100; 100 employees for each aircraft. As the ICAO study suggest that each job in aviation could lead to 6 indirect jobs, which means each addition of new aircraft in the fleet of an airline leads to 600 indirect jobs in country.

### **3.5 Attracting New Investment for Airlines and Airports:**

Government has just started the process of issuing management contracts and operation & maintenance (O&M) contracts for the Jaipur and Ahmedabad airports. Which received 12 bidders for Ahmedabad and 8 for Jaipur and it includes all the best airport operators in the world.

Similarly form foreign airlines and eyeing to invest into Indian airlines. The recent announcement of partnership between Jet Airways & Etihad Airways is example for such investments in Indian Aviation by the foreign airlines. Disinvestment of Air India and Pawan Hans Helicopters is also set to attract foreign investors in partnership with some Indian airline/operators.

### **3.6 Issues faced by Airline & Airport Operators:**

Poor infrastructure including the lack of operational readiness of airports in remote areas and lack of availability of bays in the private airports in the large metro cities, shortage of pilots, lack of favourable rules and still pending reforms in DGCA (aviation regulator) and AAI rules and regulations are the main hurdles, most of these the government is responsible for. Situation will get worse as airlines plan to add 900 aircraft in next 10 years.

AAI announced that as the part of its US\$3.1 billion infrastructure upgrade plans over next 4 years (2021) it will add 273 bays at 24 major airports against the industry requirement of 300 overnight parking bays at 30 airports in next 5 years. The solution lies in the policy intervention, such as reserving at least 25% bays for the regional routes at the metro airports.

#### **4. SUMMARY**

Domestic air travel demand surged to over 1 crore passengers in November 2017, a nearly 17% growth over the same period in 2016, according to the Directorate General of Civil Aviation. In the 11 months of 2017, a record 10.6 crore people flew within the country compared with 9.9 crore during the whole of 2016. Now this is set to rise higher. RCS is one of the key elements of NCAP 2016, which envisions domestic ticketing of 30 crores by 2022 and 50 crores by 2027. RCS as well as NCAP 2016 would eventually promote growth of the entire civil aviation sector.

Given the recent order of IndiGo for 50 ATR and order for 50 Q400 by SpiceJet confirms the confidence of industry in the RCS. UDAN may have started off on the prayers but is now taking wing with the confidence of major airlines in the RCS and National Civil Aviation Policy, all is set to take-off towards the bright future of Indian Aviation with positive impact on Indian Economy, but especially challenges related to infrastructure.

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