

Real Estate Update

January 08, 2004

NARESH CHANDRA COMMITTEE REPORT ON THE CIVIL AVIATION SECTOR

The Naresh Chandra Committee ("**Committee**") submitted its report to the Ministry of Civil Aviation on December 8, 2003, suggesting dramatic changes to revitalize the Indian civil aviation sector focusing on privatization, encouraging foreign investment, affordability, viability and safety. The Committee was set up to look into the bottlenecks and problems plaguing the aviation sector. Some of the salient recommendations of the Committee are as follows:

- Foreign equity investment for foreign individuals and companies pertaining to both domestic and international scheduled air transport services should be further liberalized to allow upto 49 percent. Investment by foreign airlines should be allowed upto 49 percent with the approval of the Foreign Investment Promotion Board. In all other air services, i.e., non-scheduled services such as helicopter operations, foreign investment, including investment by foreign airlines, should be allowed upto 100 percent.
- Liberalization of the international air transport segment to be pursued in a phased manner. In the first phase, private airlines based in India should be allowed to provide international air transport services to and from India. In the next phase, India should actively pursue the objective of complete liberalization of the international air transport segment through (a) seeking more liberal arrangements under the bilaterals; and (b) enhancing full-access to wider market segments by joining a regional or a plurilateral group of countries with a similar agenda of liberalization.
- Further liberalization of air-chartered services, specifically, the Committee recommends relaxation of restrictions pertaining to frequency and foreign ownership norms for chartered operators. In addition, tourist charters should be allowed to take Indian Passport holders on board and also to carry a mix of foreign and Indian passengers on domestic tourist circuits.
- Removal of requirements regarding fleet size and equity capital to enable easier entry into the aviation sector . Immediate measures to reduce system costs of the civil aviation sector, including allowing airlines to source Aviation Turbine Fuel ("**ATF**") from the supplier of their choice, improving co-ordination with other ministries such as home affairs and defence.
- Airport charges to be brought down to rates comparable with neighboring South East Asian states and Gulf countries.
- Lower excise duty and sales tax on ATF and abolish import duty and sales tax on AVGAS (fuel for trainer aircraft at flying clubs). Other aviation related taxes and fees such as Inland Air Travel Tax, Foreign Travel Tax and Passenger Service Fee maybe replaced with a single lower ad valorem sector-specific cess, at 5 percent of the airfare. Further, there should be parity in taxes on ATF and reduction in route navigation and landing charges for aircrafts with certified maximum seating capacity of less than 80.
- Liberalized airports should be allowed to come up irrespective of proximity to existing airports. However the state and central governments should refrain from offering concessions and subsidies to these airports.
- Abolition of route dispersal guidelines in the domestic travel segment. Simultaneously the government should set up a non-lapsable Essential Air Services Fund to provide explicit subsidy support, congruent with the quantum of funds available, to essential but uneconomical services, including commercially unviable airports.
- Privatization of the national carriers - Indian Airlines and Air India - along with the airports in India. In the case of the former, it is recommended that a consortium of domestic financial institutions and foreign institutional investors be created, who would hold the shares of the two national carriers. In the case of the latter, relaxation of the qualification criteria for bidding so as to broaden the number of competent bidders has been proposed.
- Disinvestment of Pawan Hans Helicopters Limited, the State-owned helicopter charter service provider, by inducting a strategic partner and, thereafter, go in for an Initial Public Offer.
- Privatisation of existing airports and private sector participation in Greenfield projects.
- Due to increased privatization and the potential abuse of monopoly power by the airport operators, the responsibility of ensuring appropriate levels of regulation should be vested with the proposed Aviation Economic Regulatory Authority ("**AERA**").
- Safety regulation of Air Traffic Control Corporation ("**ATC Corporation**") should be under the purview of the Directorate General of Civil Aviation. In order to contain potential abuse of monopoly power, the ATC Corporation should also be regulated by the proposed AERA.
- Segments of airports and ATC services, which have natural monopoly or "common user/carrier" characteristics, should be subjected to independent economic regulation by the proposed AERA. The Committee also suggests

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that the AERA should use a light-handed approach such as multi-year price-cap regulation. In line with this, the Committee recommends establishment of AERA as a single-member entity, supported by appropriate technical staff. As the sector develops, the regulator should gradually withdraw from supervision and cede oversight of anti-competitive practices to the Competition Commission of India.

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Source: **Ministry of Civil Aviation**

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