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NAVIGATING THE SKIES:

A Study of the Indian Civil Aviation and Air Cargo Sector



PHDCCI POLICY FORUM

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Executive Summary

The civil aviation sector in India is experiencing a robust growth, emerging as the third-largest domestic aviation market globally. The civil aviation and air cargo sector had shown a remarkable resilience during the COVID-19 pandemic, transitioning from repatriation flights to efficiently supply essential goods, including vaccines. This sector has shown a bounce back after the pandemic, evident in the recent surge in passenger traffic nearing pre-pandemic levels. The industry has evolved into a mode of travel prioritizing customer satisfaction, marked by a low rate of complaints and cancellations. India has also significantly improved its global aviation safety ranking, reflecting enhanced safety standards.

As air travel soars, domestic airlines are playing a pivotal role in driving economic growth and fostering connectivity. The civil aviation sector is undergoing digital transformation, enhancing efficiency and safety due to various government initiatives and industry efforts.

In addition, substantial investments and infrastructure developments via government initiatives like PM Gati Shakti Mission and Public-Private partnerships has led to spillover effects on economic growth and employment. The government has introduced several schemes and policies to boost the air cargo sector, like NCAP 2016 and Krishi UDAN 2.0 underscoring the significant potential of the air cargo industry.

Nevertheless, the sector faces several challenges, including escalating airfare charges, complex customs regulations, limited availability of wide-body planes, and high custom duties paid by air cargo companies. High Aviation Turbine Fuel (ATF) prices have also impacted the industry, with a significant proportion of operating costs attributed to jet fuel prices. The sector's emissions are under scrutiny, and solutions such as sustainable aviation fuel are necessary to reduce emissions.

As the voice of industry and trade, PHDCCI has undertaken multiple rounds of consultation with industry leaders, senior policymakers and other industry stakeholders. Through seminars, conferences & meetings, PHDCCI has come up with a series of recommendations that will take the sector to the next level.

The recommendations that have emerged from these consultations, including creating multimodal and dedicated transshipment hubs, promoting sustainability, optimizing customs clearance infrastructure, ensuring gender inclusivity, rationalizing cargo and freight charges, and offering incentives for the development of Air Freight Stations, are detailed at the end of the report.



Background:

In the tapestry of India's modern economy, the civil aviation sector emerges as a thread, seamlessly connecting air cargo, passenger aviation, and critical infrastructure.

India's international trade owes much to air transport, which has propelled the nation's rapid growth in global commerce. High-value, low-weight industries like pharmaceuticals and electronics have reaped substantial benefits from air transport services. Beyond being a mere mode of transport, this sector is a growth engine. It creates jobs directly and indirectly, contributing significantly to the nation's GDP, fostering business growth, expanding trade, and nurturing tourism.

Air cargo is also the enabling thread for manufacturing companies to minimize inventory costs by swiftly moving components across distant locations. Enhanced air connectivity is a magnet for Foreign Direct Investment (FDI), while tourism, a key economic driver, thrives with better air access.

The present-day Indian civil aviation sector stands as the world's third-largest in domestic traffic. Pre-pandemic, it was poised to attain the same status in overall traffic. Visionary policies and timely interventions by the Ministry of Civil Aviation is ensuring that the sector catapults. Strategic government initiatives, including the National Civil Aviation Policy (NCAP) 2016, Regional Connectivity Scheme (RCS) UDAN, and the Drone Policy, have nurtured this growth.

Currently, over 60% of air traffic is concentrated in metropolitan cities. However, the future promises tremendous growth in tier 2 and tier 3 cities. Greenfield airports and transformed brownfield airports are poised to become major aviation hubs. India is expected to fly 450 million passengers from over 200 airports by 2030. Achieving this potential hinges on well-structured Public-Private Partnership (PPP) models and thoughtful policy interventions.

India's air cargo industry exhibited remarkable resilience during the COVID-19 pandemic. After initial setbacks, it rebounded swiftly, recovering over 90% of pre-pandemic traffic by January 2022. The government's proactive measures, including monetary incentives, tax breaks, and initiatives like NCAP 2016 and Krishi UDAN 2.0, streamlined the air cargo supply chain. These measures have positioned India as a significant global player in the air freight market.

With visionary government policies and a dynamic ecosystem, this sector is poised to play an increasingly pivotal role in shaping India's economy in the next 25 years of Amrit kaal.



OVERVIEW

Domestic and International Passenger Traffic and Passenger Services

India has the third largest domestic civil aviation sector in the world. It contributes around 5% to India's GDP and employs 4 lakh people in the country.¹ There has been a strong rebound in the civil aviation sector in recent times with the passenger traffic touching almost pre-pandemic levels. Figure-1 shows that passenger traffic (domestic and international) carried by scheduled carriers which sharply declined from 202 million in 2019-20 to 62 million in 2020-21, significantly improved to 191 million in 2022-23². The recent surge in civil aviation's growth and its promising future prospects are exemplified by IndiGo setting a new world record with an order for 500 planes, closely following Air India's order for 470 aircraft.

Figure-1 Passenger traffic carried by scheduled carriers in India: 2012-13 to 2022-23



Source: Handbook of Statistics of Civil Aviation, 2022-23

Today, civil aviation has evolved beyond mere expeditious transportation, transforming into a mode of travel that seamlessly combines convenience and customer delight. The industry is committed to prioritize customer satisfaction and delivering reliable and efficient services to passengers as evident by the low rate of complaints and cancellations in recent times. Also, India's stringent safety standards and oversight system further enhance passenger satisfaction, positioning the country among the world's top safety standards. India has jumped from 112th position to 55th position in Global Aviation Safety ranking by ICAO in 2023³.

Moreover, introduction of newer technologies such as E-boarding via DigiYatra, self-baggage drop facility and automated tray retrieval systems have helped to improve operational efficiency in airlines but has also reduced long queues and wait time of passengers.¹

¹ https://www.cargoflash.com/blog/Contribution_of_Air_Transport_to_the_Indian_Economy



To ensure air connectivity in Tier 2 and Tier 3 cities and affordability to the masses, the government introduced the Regional Connectivity Scheme (RCS) UDAN. As on August 2023, a total of 481 RCS routes are commenced under this scheme.

India's civil aviation sector is undergoing digital transformation, bolstering efficiency and safety. Initiatives such as UDAN, Public-Private Partnerships (PPPs), and digital advancements like Digital Sky, and DigiYatra, are supporting this transformation.⁴

Infrastructure Development in Civil Aviation Sector

Infrastructure development in the civil aviation sector is pivotal, as it forms the backbone of efficient air travel, encompassing airports, runways, air traffic management systems, and passenger facilities. Recently, Airport Authority of India has allocated Rs 98000 crore capital outlay for the civil aviation sector i.e. for the construction of greenfield airports, terminals, modernization and expansion of existing terminal and strengthening runways among other initiatives.⁵ In addition to that, the historic high of 37% in capex push i.e. 10 lakh crore in Union Budget 2023-24 shows government's commitment towards strengthening investments in infrastructure⁶.

The numbers of airports in India have also doubled from 74 in 2014 to 148 today. Recently the government has provided in principle approval for 21 greenfield airports, out of which 11 airports have been operationalized⁷. In addition to airports, expansion of fleet capacity by various airlines is a testament to how the industry perceives the Indian civil aviation market in times to come.

A major focus has also been on enhancing multi-modal connectivity through the PM Gati Shakti National Master Plan which focuses on integrated planning and coordinated implementation of infrastructure connectivity projects⁸. It will facilitate movement of goods and people from one place to another, provide last mile connectivity, cut down logistics costs and make businesses competitive.

Another significant component of the aviation sector has been Maintenance, Repair and Overhaul (MRO) of aircrafts and airports which forms an essential component for the

²<https://www.dgca.gov.in/digigov-portal/?page=jsp/dgca/InventoryList/dataReports/aviationDataStatistics/handbookCivilAviation/HANDBOOK%202022-23.pdf&main4252/4205/sericename>

³<https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/india-jumps-to-55th-place-in-icaos-aviation-safety-oversight-ranking-dgca/articleshow/97801587.cms?from=mdr>

⁴<https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/digi-yatra-facility-to-be-launched-at-six-more-airports-in-august/articleshow/102657701.cms?from=mdr>



smooth functioning of the aviation sector in the country. As per Aviation 2023 Fleet and MRO forecast, commercial MRO demand in India is estimated to be around \$32.6 billion during 2023-32. The govt. has also taken cognizance of the MRO component and has reduced GST rates on aircraft MRO from 18% to 5%. Moreover, 100% FDI is allowed into the sector.

These substantial investments and supporting initiatives in the civil aviation sector are poised to generate significant spillover effects, positively impacting economic growth and employment. According to estimates from the Ministry of Civil Aviation, the aviation sector exhibits an impressive output and employment multiplier of 3.25 and 6.10, respectively. This signifies that every 100 rupees invested in air transport contributes 325 rupees worth of benefits and every 100 direct jobs in air transport result in 610 jobs across the broader economy.⁹

Trends of Air Cargo Sector in India

India's air cargo sector has shown strong resilience and adaptability during pandemic times. During this period, India's air cargo sector played an indispensable role and its operations transformed from repatriation flights to effectively supplying essential commodities, vaccines and medicines both within the country and across the international borders.

The Air Cargo sector has shown a strong recovery as cargo traffic carried by scheduled flights again rebounded to pre-pandemic level. Air cargo sector generated substantial revenues during the pandemic when the scheduled commercial flights were not in operation. As per DGCA, Air cargo traffic was 1554 thousand metric tons in 2019-20, decreased to 1004 thousand metric tons in 2020-21 and strongly bounced back to 1529 thousand metric tons in 2023-24¹⁰ (Figure 2).

5 <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1763638>

6 https://www.indiabudget.gov.in/doc/budget_speech.pdf

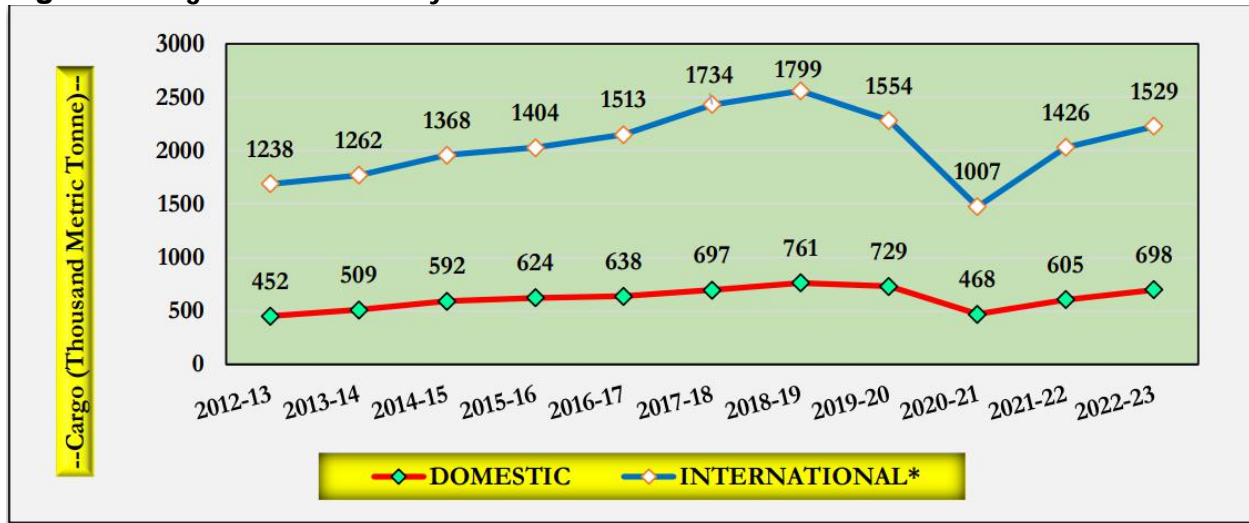
7 <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1908939>

8 Launched on 13 October 2021. Infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. will be incorporated under PM Gati Shakti. In addition, Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered under it.

9 <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/every-rs-100-invested-in-civil-aviation-gives-economic-output-of-rs-325-jyotiraditya-scindia/articleshow/86647104.cms?from=mdr>



Figure-2 Cargo traffic carried by scheduled carriers



Source: Handbook of Statistics of Civil Aviation, 2022-23

Recent statistics of the Ministry of Civil Aviation shows that around 80% of air cargo traffic is still carried through belly cargo in India whereas 20% cargo traffic on an average is carried by dedicated cargos from 2013-14 to 2022-23¹¹. This indicates the need to set up more dedicated cargos, which will increase the trucking speed and turnaround time at airports which in turn would sharply bring down the logistics costs in the civil aviation sector.

At present, foreign air carriers control 94–95% of the market and account for the majority of shipments into and out of India. Indian air carriers control the remaining 5–6% of shipments, which is mainly done through airlines like Air India and Vistara that operate wide-body aircrafts, which have a larger belly than a narrow-body aircrafts.¹² The induction of wide-body planes in Indian cargo sector will facilitate level playing competition field for Indian companies to compete with big foreign freight carriers like FedEx and DHL.¹³

The Indian government's air cargo policy seeks to make India among the top five air freight markets by 2025. It plans to set up air transport shipment hubs at all major airports over the next few years which will be key to advance industry growth.

¹⁰<https://www.dgca.gov.in/digigov-portal/?page=jsp/dgca/InventoryList/dataReports/aviationDataStatistics/handbookCivilAviation/HANDBOOK%202022-23.pdf&main4252/4205/sericename>

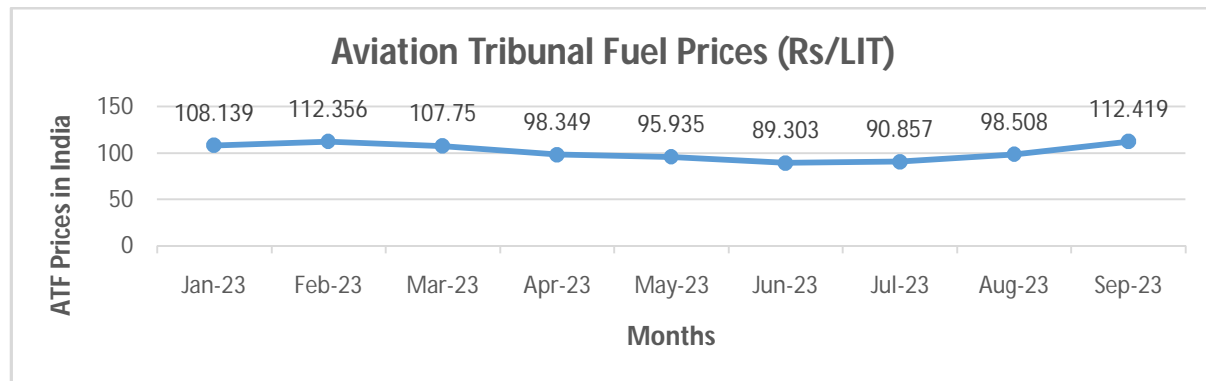
¹¹ Dedicated cargo refers to the cargo carried by aircrafts solely meant for freight carriage



Challenges of the Civil Aviation and Air Cargo sector in India

(I) High Aviation Turbine Fuel (ATF) Prices

Following four months' decline (from Mar-23 to June-23), ATF prices have substantially surged since July-23 and have been increasing since then, impacting the civil aviation industry. This surge can be attributed to the rise in crude oil prices at global level which leads to rise in price of India's crude oil basket. This rise in ATF prices is crucial for Airlines as approximately 40% of their operating costs are attributed to jet fuel prices only.^{14,15}



Source: <https://www.petrodieselprice.com/atf-aviation-jet-turbine-fuel-oil-price-in-india-and-cities>

(II) Carbon Emissions and Sustainable Aviation Fuel

As per DGCA report, the carbon footprint of Indian Airlines on both domestic and international operations is the 7th highest in the world, with an approximate value of 127 lakh tons. Also, 95% of the emissions arise from aircraft, and the remaining 5% is from airport-related operations. Adopting sustainable measures like sustainable aviation fuel is crucial to the growth of the sector.

Today, many airlines operate their aircraft on SAF blended with conventional fuel as most plane engines do not allow using 100% of SAFs. The widespread production and the use of SAFs is also limited by cost and requires significant investment. Experts predict that growing demand and regulatory pressure will lead to more production and lower costs.

¹²<https://www.cnbctv18.com/aviation/foreign-carriers-dominate-india-international-air-cargo-take-around-95-percent-market-share-16393901.htm>

¹³ <https://www.livemint.com/companies/news/airlines-bet-big-on-cargo-ops-11663261092508.html>

¹⁴ <https://ppac.gov.in/prices/international-prices-of-crude-oil>

¹⁵ <https://www.petrodieselprice.com/atf-aviation-jet-turbine-fuel-oil-price-in-india-and-cities>



(III) Limited Coverage under Regional connectivity scheme RCS-UDAN

Only 54 routes or 7% of all awarded routes under the government's ambitious regional connectivity scheme (RCS), Ude Desh Ka Aam Nagrik (UDAN) have managed to sustain operations beyond the three-year concession period.¹⁶

(IV) Custom Regulations are complex

As per Custom rules, security declarations in the form of physical stamped copy of digital declaration are required for every shipment which is transported. This process uses large amount of paper and substantially increases clearance time. An alternative simpler and digital process is required.¹⁸

(V) Less availability of wide body planes

India's civil aviation sector does not have an adequate number of wide-body planes. Therefore, traveling to long-haul destinations is not possible. Here, foreign players like FedEx, UPS and DHL dominate the Indian air cargo landscape and smaller companies are unable to compete with established big companies due to lack of level-playing field.

(VI) Higher Cargo Tariff charged by Cargo Terminal Operators

The transaction costs of the logistics sector are very high in India which comes to 13% to 14% of the GDP as compared to the developed economies where it ranges between 6-8% of their GDP. The primary reason for such high costs in India is unjustified enhancement of Cargo tariff by Cargo Terminal Operators (CTOs) without consulting the concerned stakeholders. This cargo tariff is charged under multiple heads which leads to higher operational cost affecting our export competitiveness at the global level.

(VII) Heavy Custom Duties paid by Air cargo companies

Indian air cargo operators have to pay high custom duties on leased aircrafts which are registered in India. Further, these cargo companies cannot operate aircrafts which are more than 20 years old. But at the same time, the foreign air cargo players can operate planes more than 20 years old. The Indian air cargo companies do not have a level playing field¹⁹.

¹⁶<https://www.moneycontrol.com/news/business/only-7-of-routes-under-rcs-udan-scheme-sustainable-beyond-3-year-concession-period-caq-11182261.html>

¹⁷<https://timesofindia.indiatimes.com/business/india-business/rise-in-airfare-driven-by-seasonality-fuel-price-hike-scindia-informs-parliament/articleshow/101983254.cms?from=mdr>

¹⁸<https://www.youtube.com/watch?v=YIh5BaTgF38&list=PLYkn5BiARGd8tmxnRak9k6qcMoWxq8Cfm>

¹⁹<https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/india-has-scope-for-130-150-more-wide-body-aircraft-ge-aerospace/articleshow/104087246.cms?from=mdr>



Recommendations:

1. Create Multimodal and Dedicated Transshipment Hubs

Despite enjoying a geographical edge, Indian airports have not lived up to their full potential as transshipment hubs. One reason is there has been a lack of an integrated air cargo hub with multimodal connectivity. India needs to focus on creating a healthy ecosystem of transshipment cargo hubs across the country that will help Indian airlines and freight forwarders ship more cargo tonnage across the world. Dedicated transportation hubs would enhance connectivity, efficiency, and cost-effectiveness in the sector.

2. Promote Sustainability in Civil Aviation

Implementing eco-friendly practices, such as energy-efficient operations and reduced carbon emissions, aligns with global sustainability goals. Custom department rules requiring paper-based security declarations can be transformed through digitalization to make the sector 'Go Green' and paperless. Additionally, adopting sustainable aviation fuel, like sugarcane molasses-based biofuel²⁰, can significantly cut emissions, benefit farmers, and generate over 1 lakh green jobs, contributing to a more sustainable future.

3. Optimize Infrastructure for Efficient Customs Clearance

Establish a single-window customs clearance system for faster movement of imports and exports. Invest in modern logistics software for real-time tracking and efficient operations through Public-private partnership.

4. Make civil aviation & cargo sector gender inclusive

To increase participation of women in civil aviation at all levels in tune with the objectives of ICAO, the government has set up a 4 member committee. This committee should include participation from the industry stakeholders as well.

5. Rationalize Cargo Tariff by Cargo Terminal Operators.

CTOs should simplify Cargo Handling tariff under single head on 'per kg' basis and also involve the stakeholders in determination of the Cargo Tariff for Air Cargo handling activities at their respective Air Cargo Terminals. To undertake such consultation, Ministry of Civil Aviation should create a 'Consultative group' consisting of Trade associations along with the representatives of the ministry and other regulatory bodies.

20. <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1925417#:~:text=With%20a%20focussed%20vision%20of,achieving%20Net%20Zero%20by%202070>.



6. Rationalize freight charges.

There is non-transparency in the airline tariff for handling of cargo. The increase in the variable charges levied by the airlines i.e., security surcharge, fuel surcharge etc., leads to higher logistics cost. Airline should consolidate their charges under one head to create higher transparency on charges to shippers and consignees. Thereby, reducing the freight and transaction cost.

7. Provide incentives for the development of the Air Freight Stations.

Ministry of Civil Aviation announced the policy guidelines on Air Freight Stations (AFS) on October 28, 2014 with an objective to strengthen Air Cargo logistics infrastructure in the country. On 30th August 2016, the Government of India accorded its 1st approval for the establishment of the AFS after being apprised of the features/process/procedures to all concerned ministries/organizations. However till date, AFS Policy has not been implemented.

It is worth mentioning that the Air Freight Station holds immense potential to be a game-changer in the logistics industry in India. In order to develop the concept of Air freight Stations on pan India basis, Union Government needs to come out with a policy to provide incentives for the allotment of space/land for its establishment near the Airports and the industrial belts across the country. This policy should be a part of all the Logistics Policy issued at the State level.

Also, to ensure that Air Freight Stations are able to offer competitive tariff to the exporters, customs cost recovery charges for the deployment of customs officials at the Air Freight station should be exempted by the appropriate level of government.

8. Continuation of GST Exemption on Export Cargo Transport.

The exemption of GST on export cargo transported by air, initially introduced in January 2018 and extended until September 2022, has been discontinued from October 1, 2022. This decision has raised concerns among several trade bodies and industry stakeholders, who have highlighted the disparity between Indian and foreign freight forwarders. The absence of this exemption could adversely impact Indian exporters, leading to increased business costs and delayed cash flows.

To maintain a level playing field and reduce logistics costs, it is recommended that the government revives the GST exemption for international transportation and freight services via air and ocean for export shipments. Establishing a permanent exemption and considering the exemption of ancillary services related to international transportation of goods, such as customs clearances and cargo handling, would further streamline associated costs for exporters and support India's exports.



9. Grant Industry status to Freight Forwarders and Custom Brokers

The logistics service providers, freight forwarders and custom brokers should be provided industry status. It will help in gaining recognition with banks, financial institutions, and government bodies as a service industry. This will also boost the growth of the logistics sector, thereby creating more employment opportunities and reduction of logistics cost.

At present the status has been provided by the UP and Gujarat government however this needs to be implemented centrally and for all India through “Ministry of Commerce”.



PHDCCI POLICY FORUM is a dedicated Policy forum to facilitate dialogue and research on critical issues impacting the growth and development of the Indian economy, particularly with regards to MSMEs, e-commerce, trade & exports. PHDCCI Policy Forum advised by Dr. Manoj Pant, Former VC & Director- IIFT, serves as a platform for rigorous policy research and analysis, aiming to bridge the gap between industry and the government.



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