Open up the market, don't create further hurdlles

The civil aviation ministry is all set to replace one bad idea with one that is worse. The 5/20 rule which said an airline could only fly abroad after it had been flying for 5 years and had 20 aircraft was always protectionist in that it discriminated against younger airlines. And the ability to fly overseas was important not just from the point of giving airlines a bigger market to play in, it also helped lower aviation costs—most state governments levy high VAT on aviation fuel, making India one of the most expensive countries in which to operate. Apart from the fact that what the ministry is now proposing is bizarre, it is not quite clear what is driving it.

Part of the problem originates from the government’s desire to get airlines to fly to smaller towns and cities. While airlines should typically fly to such destinations only if it makes economic sense, the ministry is imposing a tax on them—this implicit tax is not new, and exists even today under the route dispersal guidelines which lay out the proportion of metro/non-metro flights; in case of areas like telecom, this tax takes the form of the universal service obligation fund which adds up to 5% of revenues. However undesirable the route dispersal guidelines—it clearly has no place in a genuinely free market, but that’s the subject of another edit—the aviation ministry seemed like it was making the best of a bad deal. So, in the initial drafts of the policy being discussed, the 5/20 rule was to be dispensed with in return for airlines flying more domestic routes. A system of higher credits for flying to certain tourist or pilgrimage spots was also talked of; so was the possibility of higher credits for using smaller aircraft including code-sharing with air-taxis. In other words, new airlines could envisage the possibility of flying to overseas destinations quite soon after they started business. There is some lack of clarity on how these credits are to be quantified, on the basis of the seats in the aircraft, the seats occupied or the seat-kilometres, but that is something which will be clarified soon.

What makes the proposal protectionist, however, is the plan that flying overseas be rationed. Airlines that have 300 domestic flying credits (DFC) will be allowed to fly only to destinations that are over 6 hours away. That is, the new airlines cannot, to begin with, fly to destinations in the Gulf or to South East Asian destinations like Singapore. Ironically, this means if younger airlines are to fly overseas in their initial years, they will need to buy long-haul aircraft to be able to do so—in other words, they will have to acquire a very different type of fleet from the ones they have currently. It is only when they have 600 DFCs that they will be able to fly these routes—in other words, there is an increased protection being given for a while to existing players. In which case, since the government clearly doesn’t appreciate the transformative value of increased competition in the aviation space—in terms of greater choice to passengers—why even go through the fiction of abolishing the 5/20 rule?