

Speech of Secretary, Ministry of Civil Aviation, Shri M. Madhavan Nambiar
U.S.-India Aviation Partnership Summit
December 8, 2009.

“Mr. Dennis Hightower, Mr. Randolph Babbitt, Mr. Henry Steingass, Ms. Leocadia Zak, Ladies and Gentlemen.

It gives me great pleasure to be here with you at the Second US-India Aviation Partnership Summit. This important initiative highlights the India-US Civil Aviation Cooperation programme and the huge opportunities for investors in the sector from both the countries.

The Open skies agreement between India & U.S. (2005), Memorandum of Agreement between the US Federal Aviation Authority (FAA) and the Government of India in 2006, the Joint Aviation Steering Committee, the US-India Aviation Cooperation Programme (ACP) in 2007 etc. are some of the milestones in India-US civil aviation cooperation. Civil aviation cooperation between India and US has boosted trade, tourism, business and also resulted in new services, new partnerships and lower prices to the benefit of countries' economies, businesses and citizens. Some leading US companies such as Boeing, Raytheon and Lockheed Martin have established presence in India with long term objective. Air traffic & connectivity between the two countries has increased significantly in the period post open skies.

I am delighted to inform you that the US is India's largest trading and investment partner. In 2008, India's exports to the US were USD25.86 billion while imports were USD17.33 billion, out of this USD 2.6 billion were civil aviation imports, almost 60% of the total Indian high technology imports from the US. Aerospace products have emerged as the fastest growing component of US exports to India.

I would like to begin by highlighting our strong belief that there can be no better time to take our bilateral relationship to the next level. I have great optimism that US and India will remain as strategic partners for many years to come. I feel that there is now much greater understanding of each other's aspirations and perspectives on bilateral trade & other issues. The recent visit of Hon'ble Prime Minister of India to the US has reaffirmed the global strategic partnership between India and the US and launched a new phase in this partnership. Besides several cooperation programmes, the two sides also agreed to collaborate in the application of their space technology and related scientific capabilities in outer space and for development purposes.

The successful retention of India in Category-I status by the FAA has helped India to bring back aviation safety into the spotlight. This reaffirms that Indian safety standards are compliant with international safety standards. The FAA audit under the International Aviation Safety Assessment Programme gives Directorate General of Civil Aviation (DGCA), Government of India, a level playing field in the area of safety and maintenance standards. This paves the way for allowing Indian carriers to expand

service in the US by adding flights through new access points & code share agreements with US carriers.

The Summit begins on an optimistic note as is substantiated by the latest figures published by IATA. IATA has reported that international scheduled traffic results for October 2009 are showing improving trends. Passenger demand was up 0.5% compared to October 2008. Demand for international cargo rose to 0.5% below previous year levels. This is significantly better than the 5.4% decline recorded in September. Load factors for passenger and cargo continue at pre-recession levels of 78.0% and 54.1% respectively. The domestic Indian aviation industry is also showing growth in the passenger traffic. In India, passengers carried by domestic airlines from Jan-Oct, 2009 were 360.09 lakhs as against 348.51 lakhs in the corresponding period of 2008 thereby registering a positive growth of 3.32%. The improvement in load factor to pre-recession levels is largely the result of careful capacity management. But the profit generation remains a concern for the airlines that are still making losses. Load asset utilization is resulting in increasing operating cost. Yields remain under severe pressure. It is, therefore, now our challenge to adjust cost and capacity to stimulate growth and undo the crisis that has cost the industry two years of growth.

India is now 18 years in to the process of economic liberalization. It sustains its unique position through a combination of macroeconomic planning focused on development, public private partnership in infrastructure, domestic demand, and a sound and well administered financial system. India draws strength from the world's youngest and fastest growing population of consumers and professionals. It is this strength which has enabled India to become a major driving force behind the world's civil aviation business. I would like to share with you the future scenario.

As per the reports, Indian aviation sector has the potential to absorb upto USD 120 billion of investment by 2020. Analysts predict that domestic traffic can reach 160-180 million by 2020, with the international traffic in excess of 50 million. As per the estimates, Indian civil aircraft market is valued at USD 90 billion involving sale of 1000 aircraft during the period 2008-20. At present, the sector has around 407 aircrafts with almost the same number on order as well. In 2008, the scheduled operators/companies were given permission to import 62 aircrafts. However, it is a fact that the current downturn has seen many deliveries being deferred, but significantly not cancelled. It is in this growth that lies our challenge in creating a safe, secure, efficient and environment friendly systems conducive to meet this growth.

It is estimated that by 2020, three out of the top four economies in the world will be Asian. The centre of gravity in the aviation industry is also expected to shift to the Asia Pacific region. Considering the strategic position of India, hub to hub traffic out of Delhi and Mumbai will be a key part of the future growth. In India, economic growth is expected to sustain in the period upto 2020 with incomes and industrial output rising.

The Indian civil aviation industry faces challenges like infrastructure bottlenecks, lack of high throughput distribution facilities, entire support system, cumbersome procedures

and logistics efficiency. Keeping these things in mind, the Government of India started investing heavily to upgrade the aviation infrastructure in the country. It is estimated that the airport system may be handling over 300 million passengers per annum by 2020. A total of USD 30 billion investment is required, including the USD 9 billion already identified. With 82 airports already functional, the Government has already identified around 11 new Greenfield airports to be developed. Airport infrastructure in India is the one area which has huge opportunity for the investors. The airport upgrade action and modernization plan, launched by Government of India, will see an investment of approximately USD 10 billion by 2010. Mumbai and Delhi airports have already been privatized and are being upgraded at an estimated investment of USD 4 billion, Kolkata & Chennai airports are next in the list. 35 other city airports are proposed to be upgraded. After Bangalore and Hyderabad the second Greenfield airport being planned at Navi Mumbai is going to be developed using public-private partnership (PPP) mode at an estimated cost of USD 2.5 billion.

The traffic slowdown is also seriously impacting the private sector airports especially Delhi and Mumbai as their revenue falls below projections. There is huge gap for both airports combined, in funding the first phase of modernisation. The introduction of airport development fees may help to ease the situation but we have to come out with more feasible & sustainable solutions both for airport developers as well as users.

The Indian aerospace industry is one of the fastest-growing aerospace markets in the world driven by continued economic growth resulting in growing passenger traffic and domestic aircraft demand and emerging as a potential international hub for manufacturing and Maintenance, Repair & Overhaul (MRO) on the back of its availability of talent and engineering workforce, manpower cost competitiveness, fast developing engineering services/R&D expertise and strategic position in the South East Asia. India's MRO segment is estimated to grow at 10%, reaching USD 1.17 Billion by 2010 and USD 2.6 billion by 2020.

Airlines in India currently outsource major checks and aircraft servicing to MRO hubs like Singapore, Malaysia and Dubai. Worldwide trends exhibit the gradual move towards third party MROs. Nearly 50% of US based airlines maintenance is outsourced to MROs and 45% of military maintenance is outsourced to civilian MROs. Both government and private players have evinced keen interest in this area with the intention of providing reliable and cost-effective maintenance services to all Indian carriers.

The aerospace sector in India is in the early stages of development and most of the domestic demand is being met through imports. Hence, opportunities for the American Aviation companies in the Indian Aviation Aerospace industry are abundant in the area of technology, raw material development capabilities, international airworthiness certifications, developing skills, providing financing, etc.

Significant developments are taking place in the aerospace industry in India. The state of Karnataka has launched the country's first Special Economic Zone dedicated to the aerospace industry near Belgaum. An Aero Park is proposed in the State of Tamil Nadu

for global aerospace and aeronautics industry in the areas of design, manufacture and maintenance of aircrafts. The State of Andhra Pradesh is also developing Aerospace and Precision Engineering Special Economic Zone. A MRO facility to undertake major checks of B-777 aircraft of NACIL and B-737 aircraft of Air India Express is being set up as a joint venture between NACIL and Boeing at Nagpur, which will be functional by 2011. A multi modal international cargo hub and Airport at Nagpur is also currently underway. All these projects have seen huge investment and will significantly change the landscape for aviation throughout the country. India will remain a major global player in global aviation and aerospace technology. Strategically located in the globe between major blocks of States in East/South East and Western parts of the world, Indian airspace and airports are uniquely placed for providing a vital link for smooth flow of traffic between these major blocks of airspace.

I would like to highlight that there are ample opportunities for co-operation in the field of civil aviation infrastructure and upgrading the non- metro airports, Air Traffic Control system, general aviation, aerospace and MRO in India.

Capacity building is a vital need for Indian organisations. Through projects under the Joint Aviation Steering Committee and the Aviation Cooperation Programme (ACP), I am sure both countries would proactively execute the activities identified in supporting civil aviation objectives. Some significant initiatives are controller training, Air Traffic Flow Management planning, capacity analysis of India's airspace and cooperation in establishing proper regulatory framework. Sharing of information, knowledge and harmonization of systems will result in aviation appropriate solutions in the best interests of the industry and the country. Adoption of best international practices is the best way forward.

The Government of India is committed to establish strong institutions necessary for the regulation of the civil aviation sector. Strengthening of the DGCA has been realized as one of the most significant activities for ensuring safer and securer skies. Three national projects of ICAO in areas of Flight Safety, Aerodromes and Air Navigation Services have been taken up to help in implementation of the corrective actions based on the ICAO USOAP Audit Report recommendations. These Projects will assist in development of systems, documents, processes, procedures, training in effective implementation of surveillance and inspection of air operators, aircraft maintenance organizations, aerodromes and ANS/CNS service provider and enforcement of relevant regulations and procedures. The projects will assist in establishment of the State's Safety Programme. Training and skill upgradation of the existing staff will also be provided under these projects. Another ICAO feasibility study on the establishment of a civil aviation authority has commenced.

The Aviation Economic Regulatory Authority or AERA has also been set up which would be the regulator for the airport sector, monitoring such issues as airport charges and service standards. This is critical as without a clear pricing framework, investors are unable to confidently develop revenue projects and determine an appropriate capital

expenditure. Regulatory and policy framework needs to be aligned with the needs of the industry to encourage serious investments in the sector.

The aim of the Government is to provide an enabling environment with the help and cooperation of all stakeholders for sustaining growth and placing India in the ranks of global leaders in the civil aviation sector. We will continue to boost creation of infrastructure, taking into consideration the huge investment opportunities to become an aggressive employment generator without compromising comfort, safety, security and affordability of air transport. Our challenge lies in keeping a close watch on the financial health of the industry and to frame policies conducive to the sustainability of the sector.

Taking ahead the initiatives for promoting the aviation sector, we are going to have the second International Exhibition and Conference on Civil Aviation sector jointly with FICCI in March 2010 at Hyderabad. The event "India Aviation 2010" is scheduled from March 3-7, 2010, at Begumpet Airport, Hyderabad and will have Flying Display and Static Display of aircrafts, Exhibition stalls and Chalets. We have already received an enthusiastic response from companies based at USA, France, UK, Canada, Germany, etc. Leading aviation companies like Boeing, Airbus, Bombardier, Bell Helicopter (Textron Group), Air India, Airports Authority of India, Pawan Hans Helicopters, Rolls Royce, GE Aviation, Pratt & Whitney, and International Aero Engines are going to participate at this event once again in a major role.

In all these initiatives, we look forward to working together in the civil aviation sector to increase the trade between our countries and developing a framework for cooperation in this crucial sector that will push technology innovation and collaboration including promotion of growth and job creation. We, in India, remain committed to protect and further strengthen the ideals of peace, harmony and social cooperation, which are the cornerstones of stability and progress of any nation.

In conclusion, let me thank all of you for your interest in promoting civil aviation cooperation between India and US. I would specially like to thank the US Trade and Development Agency for organizing this Summit and I look forward to seeing our mutual partnership flourish and grow in the years to come.

Thank you."