

REGIONAL DEVELOPMENTS THROUGH AVIATION IN INDIA—CREATION OF NEW REGIONAL AIRPORTS AND REGIONAL AIRLINES

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Introduction

One of the fastest growing aviation industries in the world is Indian Aviation Industry. With the liberalization of the Indian aviation sector, a rapid revolution has undergone in Indian aviation industry. Primarily it was a government-owned industry, but now it is dominated by privately owned full service airlines and low cost carriers. Around 75% share of the domestic aviation market is shared by private airlines. Earlier only few people could afford air travel, but now it can be afforded by a large number of people as it has become much cheaper because of stiff competition. The civil aviation traffic has seen an unprecedented traffic in the past few years on account of booming Indian economy, growing tourism industry, and entry of low cost carriers in the private sector, liberalization of international bi-lateral agreements and liberalization of civil aviation policy. In future also the civil aviation traffic is expected to grow at the same pace despite current slowdown due to global recession. But airport infrastructure has not kept pace with the growth of the civil aviation traffic. This has resulted in congestion and inefficient services in major airports, limited landing slots, inadequate parking bays and congestion during peak hours for airlines. Development of quality infrastructure will have an impact on international competitiveness and economic growth. This requires faster development of civil aviation infrastructure on public private partnership mode. In tune with the requirement many initiatives have already been started in the 10th five year plan and they are expected to continue in the 11th plan also. Of a total number of 454 airports and airstrips in India, 16 are designated as international airports. The Airports Authority of India (AAI) owns and operates 97 airports. A recent report by Centre for Asia Pacific Aviation (CAPA) states that over the next 12 years, India's Civil Aviation Ministry aims at 500 operational airports.¹

Relation of the development with the policy on infrastructure

In the policy of airport infrastructure by the ministry of civil aviation, it has been mentioned about the regional developments and creating new regional airlines and airports for better connectivity. Government is keen to encourage development of regional airlines based on small aircraft to provide air-linkages in the interior areas of the country. Regional hubs will have to act as operational

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bases for regional airlines and also have all the facilities currently postulated for model airports, including the capability to handle limited international traffic. The identification of Regional Hubs will be made on the basis of origin-destination surveys, traffic demand and the requirements of the airlines. State Govt. will be closely associated as co-promoters of regional airlines.²

In fact, the country has some 300 unused airstrips and it has been proposed to use them in collaboration with state governments. Smaller aircraft may be allowed to operate at these airstrips. To further facilitate regional connectivity, the Ministry of Civil Aviation has decided to upgrade night landing and parking facilities at nearly 20 non-metro airports through the Airports Authority of India. Some of these could also be converted into mid-sized airports where large planes could operate. The next round in aviation is going to be in terms of regional connectivity. Towards this, the ministry is talking of changing the classification of scheduled operators. That would see the emergence of newer regional airlines. "It is been planned to bring a sub-set of scheduled operators in regional airlines which will be confined to regional operations. Already, existing players are expanding their plans and newer players are entering the fray. Take HAL, the public sector defense craft maker, for instance. According to industry sources, it is entering the civil air services space through a joint venture with a private company to run a regional air service for groups of 6 to 20 passengers. "We are looking at an option like a London bus—hop in and hop off in not more than 30 minutes," says a top official working closely on the proposed joint venture. Air Sahara, the airline company plans to increase its regional jets strength from the current 7 to 25 over the next 3-4 years. A few other regional airlines like Trans-India and Air Dravida's applications are pending with the ministry.³

North East Region development through aviation

According to the civil aviation policy of 2008 by ministry of civil aviation, there are certain objectives which are laid down⁴:—

1. In the Northeast region and other remote areas, the management of airport infrastructure as well as air services is not economically viable because of low utilization and low fare structures etc. However, given the topography and inaccessibility of the region, the need for such infrastructure and air services is much greater. But at the same time, forcing commercial airlines and airport operators to invest in these areas, distort the functioning in other areas also and affect their efficient functioning commercially. Therefore, there is need to correct these imbalances.
2. It has been decided to exempt all the currently operated routes in the North-East from payment of Inland Air Travel Tax (IATT). The decisions to provide ATF to turbo prop aircraft operations at par with price for international air services and capping of sales tax at 4% would also encourage new air services in the North-East. Operation of smaller aircraft and helicopters for passenger and cargo flights will be further

encouraged through rationalization of airport charges and Avgas prices.

3. Airport Infrastructure will be upgraded wherever necessary keeping in mind the linkage with the aircraft type and traffic profile.
4. Adequate funds as grant-in-aid through North East Council (NEC) will be made available for the infrastructure development work needed to be carried out in the North-East region.
5. The air-links between the capitals of the States in the North-East region and between major stations on both sides of the Brahmaputra river will be encouraged.
6. Guwahati and Calcutta will be developed as hub station and main base of turbo-prop aircraft operations by the airlines.
7. Regular air services will be encouraged at convenient timings to enable onward connections to other parts of the country without involving night stop.
8. Suitable infrastructure like hotels, organized taxi-services at the airports and tourist spots in the North-East will be encouraged to help growth in tourism in the region.

About air connectivity in the region, the Manipur Governor Dr S.S. Sidhu who is heading a committee on air connectivity in NER in his speech in a crucial NEC meeting in May expressed serious concern over the current state of affairs in respect of air connectivity. It is revealed that the airlines which had Memorandum of Understanding with the NEC, virtually failed to honor most of its commitments. "NEC has released Rs 175 crore without commensurate benefits; Guwahati did not materialize as a Hub as per the MoU; Alliance Air operations continued to emanate from Kolkata, negating the objective laid down in the MoU and the airlines though lately increased services in the region, only 30 percent of its total operations are in the region, the remaining 70 percent are beyond NE region."

The Sidhu Committee constituted by the Minister for North East Development in its report suggested two options: Public Private Partnership model: a joint venture airline allowing the private operator majority stake (74 percent) and remaining 26 percent be hold by NEC OR Reverse Bidding Agreement (minimum subsidy route). To ensure transparency and fair play, the Committee further recommended issue of Public Notice for Expression of Interest and short listed bidders be asked to submit technical and Financial Bids.

Dr Sidhu in his presentation suggested that "The selected entity/airline should be based in North East and its operations dedicated to the Region with following objectives: Improve intra-region air connectivity; Connecting 11 other airports within one year; Inter linkages of State Capitals on daily or alternate day (depending on traffic); Pathfinder for future locations. He has also suggested that

Guwahati to be initial Hub. Sub-Hub could be set up at Imphal/Agartala. While Agartala has Night Landing Facility, Imphal will have to have NLF by December, 2007. Besides, 11 non-operational airports of the region are to be expeditiously made serviceable. The Greenfield projects could be at Kohima, Gangtok, Itanagar, Tawang and Kokrajar.

Development of regional airport in south central region

Bids for the development of four regional airports in Andhra Pradesh under public private partnership are called recently. The airports, to come up on 1,500 acre each, would be developed on a build, own, operate and transfer (BOOT) basis. The projects would be completed in 36 months from the date of award of contract. These airports would promote balanced regional development and improve the connectivity between the state capital and district headquarters. The government has identified Orvakal in Kurnool, Jakranpalli in Nizamabad, Ramagundam in Karimnagar and Tadepalligudem in West Godavari for the new airports. The Airports Authority of India has already given the feasibility reports of these places. The government has designated the Infrastructure Corporation of Andhra Pradesh (Incap) as the nodal agency for inviting expression of interest and request for proposal from prospective developers.⁵

It is one of the latest policies and development in the aviation policy of the country To expand air connectivity on Tier II and Tier III cities and to promote regional air connectivity a separate category of permit, Scheduled Air Transport (Regional) Services had been introduced with the approval of Hon'ble Minister of Civil Aviation. Accordingly, Director General of Civil Aviation had issued Civil Aviation Requirements (CAR) on Scheduled Air Transport Regional Services.

Private participation in developing regional airports

Currently, Reliance-Infra operates 5 airports in Maharashtra at—Nanded, Yavatmal, Osmanabad, Latur and Baramati on a 99-year lease. A senior executive of R-Infra said the company is eyeing at various regional airports in Andhra Pradesh and Gujarat. Also, the company is looking at other regional airports across other states in the country. In late 2008, the Andhra government had invited bids to develop 8 regional airports in Tier-IV cities. Where, more than 37 companies, including R-Infra shown interest, but the economic downturn resulted to drop the plan. According to estimates, about 3 % of Indians, largely from metropolitan cities, are regular air travelers. R-Infra sees an opportunity in the remaining 97 % and remains committed to the development of regional airports, the executive said.

The executive said regional airports can play a vital role in decongesting metro airports and can be used for refueling and cargo activities. India's geography and large population base presents multiple opportunities for airports. The executive said as R-Infra is interested in bidding for existing

airports, and at this stage it is not interested to raise new ones, which makes the company to drop the Kushinagar airport in Uttar Pradesh. He said the problems of land acquisition, local opposition and environmental concerns make it a difficult entry point for private operators. Hence, R-Infra would like some existing infrastructure assets to be present at the site before it bids. The Airports Authority of India (AAI) is also thinking of developing 15 of 40 non-operational airports in smaller cities across the country, on a (PPP) Public Private Partnership basis. The airports under consideration are in - Rajasthan, Orissa, Bihar, Uttar Pradesh, Jharkhand and the northeastern states. Reliance Infrastructure Ltd has posted a net profit of Rs 2771.30 million for the quarter ended December 31, 2009 as compared to Rs 2511.90 million for the quarter ended December 31, 2008. Total Income has decreased from Rs 28612.10 million for the quarter ended December 31, 2008 to Rs 25030.70 million for the quarter ended December 31, 2009. R-Infra interested in bids for regional airports.⁶

Financial requirements for developing regional airports

Ministry of Civil Aviation has proposed development of 35 non-metro airports, keeping in view the potential for traffic, tourism, business etc. The development of these airports was proposed in three Phases as follows⁷:

- (a) **Phase-I (10 airports):** Ahmedabad, Amritsar, Guwahati, Jaipur, Udaipur, Trivandrum, Lucknow, Goa, Madurai and Mangalore. In case of project specific problems, some airports may need to be substituted.
- (b) **Phase-II (15 airports):** Agati, Aurangabad, Khajuraho, Rajkot, Vadodara, Bhopal, Indore, Nagpur, Vishakapatnam, Trichy, Bhubaneswar, Coimbatore, Patna, Port Blair, Varanasi.
- (c) **Phase-III (10 airports):** Agra, Chandigarh, Dimapur, Jammu, Pune, Agartala, Dehradun, Imphal, Ranchi and Raipur. Additional airports will be taken up for development on need basis.

Preliminary estimates of the cost of providing infrastructure for the expected growth in passenger and aircraft traffic at 10 non metro airports have been prepared. Estimates for the remaining airports are yet to be prepared. AAI had proposed that the capital investment for commercial development of land (city side development) of non-Metro airports shall be made by private entities. It was proposed that out of their commercial revenues, private partners would pay land lease and revenue share to AAI. Based on the reports of the consultants for ten airports, an investment of Rs.1, 150 crore had been projected for commercial development. In addition, an investment of Rs. 350 crore could be envisaged for the remaining airport. An investment of Rs. 340 crore is envisaged for development of Paykong airport in Sikkim, Rs. 150 crore for Chiethu airport in Nagaland and Rs. 120 crore for Itanagar airport. This totals to an investment of Rs. 610 crore.

Initiatives for regional airport development

Sanganer Airport in Jaipur, Rajasthan, is among India's fastest growing airports, with passenger traffic having increased almost five-fold over the past five years. But the Pink City's airport cannot take the wide-bodied aircraft that most international airlines use, and foreign tourists have to come via bigger airports, using the smaller jets of domestic carriers. Nor can its runway be extended to the ideal 2,500 feet because there's a national highway at one end and residential colonies at the other. Ergo, at the present rate of growth, the airport is likely to be saturated as early as four years from now: fiscal 2014. So, the state government is getting a second airport built, at Viratnagar, 63 km from Jaipur. Rajasthan Aviation Infrastructure, a private enterprise, is building what it calls a multi-modal logistics hub that will also handle the incremental passenger demand. "Cargo will form the primary revenue driver. We should see the first aircraft land at our airport by 2014," says Mark Martin, Chief Operating Officer, Rajasthan Aviation. Jaipur's second airport is also the country's first to come up within 150 km of an existing airport. India's Greenfield Airports Policy of 2008 makes for such exemptions in rare cases. Other states and regions are likely to get similar clearances, too. Delhi is expected to get one at Greater Noida to the east of Delhi that will take care of traffic into west Uttar Pradesh. Congestion at the crowded Mumbai airport, hemmed in by slums, could be eased by an airport at Navi Mumbai east of the port city. Going by Jaipur's example, the Union government's approach to civil aviation is markedly different from what it does in the road and rail sectors, with infrastructure being set up regulator, and its joint venture companies, are preparing to tackle future demand by building larger terminals, more parking bays for planes and extending runways. Several others, too, are taking the initiative to build so-called regional airports, which have state government participation. So far, the Union government has approved new airports at Mopa in Goa; Sindhudurg in Maharashtra; Shimoga, Gulbarga, Hassan and Bijapur in Karnataka; Kannur in Kerala; Durgapur in West Bengal; Datia near Gwalior in Madhya Pradesh; and Paladi near Ramsinghpura in Rajasthan.

All this is happening at a time that India's big cities have got modern airports. At Bangalore and Hyderabad, new, swank airports on the outskirts of the cities have replaced AAI-owned airports as the main air gateway into the regions. In Delhi and Mumbai, on the other hand, modernisation projects have expanded the old and congested ones. The Indira Gandhi International Airport at Delhi, for instance, opens its new terminal first week of July. Elsewhere, the AAI is upgrading 13 major airports, including those at Chennai and Kolkata, and 35 other non-metro airports—spending a total of Rs 12,500 crore on these projects.

That may be just the beginning in this decade. Civil Aviation Secretary M. Madhavan Nambiar estimates that India's airports will be ready to handle over 300 million passengers, including foreign travelers, annually by 2020—up from a little fewer than 100 million currently. To build out this capacity, investments

needs will be around \$30 billion, including projects costing some \$9 billion already identified. Analysts say the country could have about 1,000 planes in the sky up from the current 400-odd by 2020 to ferry around the domestic passenger traffic of around 180 million. Funding for airports development of that scale will need private support. Not very long ago, the AAI was in a position of comfort; it used profits earned from large airports to develop smaller and not-so-healthy airports. After it lost control over four major airports— Delhi, Mumbai, Bangalore and Hyderabad—to private operators (it receives a near-half share of revenues in Delhi and Mumbai), its source of revenue is thinning.

In 2008-09, for instance, when private airports became operational in Bangalore and Hyderabad, the AAI lost Rs 125 crore and Rs 170 crore in revenues, respectively. By the end of that year, the number of profit making airports under the body declined from 11 to nine. The way volumes are poised to grow, then, suggests private airport operators have healthy returns ahead in the years to come. A glimpse into the valuation of the unlisted Bangalore International Airport Ltd was available last year when GVK Power and Infrastructure—also the operator of Mumbai International Airport Ltd—paid a huge premium to pick up a 29 per cent stake in the Siemens-led Karnataka project for about Rs 1,175 crore.

Still, private and foreign investors are wary of investing in the sector because of age-old problems with land acquisition and road connectivity from a new airport site. "For India's growth story to percolate to its interiors, regional airports are vital. The government must develop a low cost airport model to facilitate the viability of the regional airports," says Amber Dubey, Director of the Aerospace Practice at consultancy firm KPMG. One innovative model, he suggests, could be making a state government and the urban local body key stakeholders in an airport project. Some municipal bodies in Europe patronize airlines with incentives for bringing passengers into their town. Another reason could be India's nascent aviation industry. A regional airport at new location can be viable only if it gets on an average of 6,000 passengers and 60 landings by shorthaul aircraft a day. In comparison, most regional airports today are getting between two and 10 flights a day. The challenge, however, can be overcome if the government treats air connectivity as one of national importance and extends fiscal and other incentives. The benefits could be enormous, especially in agriculture and floriculture, which suffer from supply chain bottlenecks without airports. One example the Indian airline industry points to is in the increase in horticulture and agriculture off take from the North-East after airline connectivity improved.

Farm produce from the region that could typically take up to two weeks to reach the markets of New Delhi or Bangalore, now reaches within four days, with local logistics companies taking advantage of flights by the likes of IndiGo and Kingfisher that carry cargo in the belly of their planes to compensate for sub-optimal passenger loads. Industry and tourism could also gain. Airports and

airlines make for the classic chicken-and-egg situation. Without the infrastructure on the ground airlines cannot expand and unless the carriers increase their reach into India's smaller towns and cities, the benefits of the efficient connectivity will not spread.⁸

Upcoming new regional airlines⁹

Half-a-dozen new regional airlines are expected to start operations this year, despite a majority of the existing companies recording a combined loss of over Rs.10,000 crore. Star Aviation, Zav Airways, King Airways, Sky King Aviation, Premier Airways and a cargo carrier have received permission to import aircraft and start operations in the country. Chennai-based Star Aviation, promoted by Dubai-based real estate company ETA Star, is likely to be the first to fly.

It will start operations in recently with three Embraer 72-seater aircraft initially and provide connectivity to tier-II cities, mostly in south India. The airline will have a 10-aircraft fleet strength and will invest \$300 million in the next 18 months.

Star Aviation plans to connect Hyderabad, Madurai, Ahmedabad, Visakhapatnam, Bangalore and Kochi with Chennai, the airlines spokesperson said. It will be a full-service carrier with a single-class configuration like another Chennai-based carrier, Paramount Airways.

Example of a regional airline¹⁰

MDLR Airlines

MDLR, Full Service Airline is wholly owned by the **MDLR** (Murli Dhar Lakh Ram) group, a pioneer leader in commercial and real estate industry. Based in Gurgaon, **MDLR Airlines** started operations on 14th March 2007. The airline connects many small cities and business towns to the four metropolitan cities of India. **MDLR Airlines** is committed to provide efficient, high standard and excellent quality onboard services to all its passengers. Country's first full service vegetarian carrier, **MDLR Airlines** uses Graphical User Interface of Airlines inventory and Reservation System of Bird group to make reservations process easy and quick for passengers. Tickets on **MDLR Airlines** can be booked through MDLR website, 24X 7 MDLR call center, authorized travel agents and **MDLR** airport offices.

MDLR Fleet

MDLR airline currently operates three luxurious and spacious 70 seater aircrafts, AVRO RJ 70. MDLR is the first **domestic airline** of India to have introduced the four engine AVRO RJ 70 jets. All aircrafts have good leg-space, plush interiors with two-class configuration and follow highest safety standards in the industry. Apart from the Economy class, **MDLR Airlines** offers Club seats

to business travellers. Providing comfortable and stress free journey to passengers, **MDLR** is looking forward to double up its fleet size by the end of this year.

MDLR Operations

MDLR airline operates regular flights to Chandigarh, Delhi, Ranchi, Kolkata, Dehradun, Dharamsala. Connecting all prominent cities to several regional destinations across India, **MDLR Airlines** also flies to many popular sectors across India i.e. Delhi – Chandigarh, Ranchi – Delhi, Chandigarh – Kolkata and Ranchi – Chandigarh. The airline plans to expand its operation to Mumbai, Surat, Goa, Pune, Bhavnagar and few more northern Indian cities in the near future. **MDLR Airlines** is also in the process of opening exclusive city lounge check-in facility at Delhi, Gurgaon and Chandigarh.

Regional airlines relating to present status¹¹

Close to six months after the government announced its regional airline policy, carriers are suddenly waking up to serious infrastructure constraints and competitive pressures that, they say, will impact their viability. Regional airlines that have received approval include MDLR, Jagson Airlines, Star Aviation and Zav Air. Others like Mega Airways and Premier Airlines are still awaiting approval. Under the new policy, regional carriers that fly small aircraft (below 40,000 kg) are exempt from all airport and navigation charges and pay concessional tax of 4 per cent on fuel against 35 to 36 per cent for national carriers. Unlike national carriers they can start operations with only one aircraft (instead of five) and equity of Rs 12 crore (instead of Rs 50 crore). Regional airlines are, however, allowed to operate flights only to or from one city (except in the south, where they can operate between Hyderabad, Chennai and Bangalore). Infrastructure constraints are already hampering the operations of those that have begun. "Most of the airports do not even have a proper runway, neither in strength nor in length and cannot support an aircraft of even 40,000 kg," said Koustav M Dhar, executive director, marketing and planning, MDLR Airlines, which has started operations. He added that most of these small airports are defense airports doubling up for civilian duty so flight timings are restricted to between sunrise and sunset. These timings clash with the peak time in the bigger cities when smaller aircraft are not allowed. The other serious problem is congestion in the larger airports. Most are reluctant to permit extra flights, even from regional carriers. This leaves these airlines with little option but to operate between the smaller cities. "Traffic growth has only just begun between large and small cities. Between the small cities, it is yet to begin in a major way, which means that at least for now, there is no viable market for regional airlines in regions apart from the south. "Regional airlines have no scope in the long run under the current policy," added Kishore Zaveri, chairman of Zav Airways, which will start operations from the north-east. Zaveri added that the only way out for a regional airline was to upgrade its licence for pan-India

operations after some time. "The government has to see that the national players restrict operations on the routes on which regional players operate since regional players are not allowed to fly on the routes these carriers are flying. National carriers picking up traffic from the smaller cities have a bigger competitive edge because they can pick up traffic to and from all over the country," he added.

Launching of regional carriers or airlines¹²

More than a year after the government announced a new policy allowing small players to launch short-hop, regional flight operations, some firms that have been issued licences are cautiously gearing up to start operations despite slowing commercial air passenger traffic in an all-encompassing economic slowdown. In 2007, the civil aviation ministry introduced a policy for small start-ups to connect small towns, complementing national operators, including National Aviation Co. of India Ltd-run Air India, Jet Airways (India) Ltd, Kingfisher Airlines Ltd, SpiceJet Ltd, Go Airlines India Pvt. Ltd, InterGlobe Aviation Pvt. Ltd-run IndiGo and Paramount Airways Pvt. Ltd. A regional carrier from New Delhi was allowed to connect any other city, but not a metro of the other region. The only easing of this rule was that carriers starting operations from Bangalore, Hyderabad and Chennai were allowed to connect one another.

It has been said by civil aviation minister: "Regional (aviation) is the future because there is a lot of opportunity connecting tier II and tier III cities with smaller airlines. ATF (aviation turbine fuel) is cheaper and landing and navigation charges are waived for 80-seater and smaller planes." Since 2007, the aviation ministry has given permission to several start-ups, including ZAV Airways Pvt. Ltd, Star Aviation Pvt. Ltd, MDLR Airlines Pvt. Ltd, Jagson Airlines Ltd, and more recently, King Air Pvt. Ltd. Except for MDLR Airlines with its two Avro 146-RJ70 aircraft connecting Chandigarh, Kullu, Ranchi, Kolkata and Goa with New Delhi, and Jagson Airlines, which flies two helicopters, the others are yet to take off. "When the (regional airlines) policy came in, there was an obsession for metro routes," says Mark Martin, an analyst with KPMG's India offices, who believes that this could be a good time to start regional operations, depending on the demands of a particular region. "You can have a blend of routings now. You can do pick-and-drop service on key routes."

Analysts such as consulting firm Centre for Asia Pacific Aviation's India chief executive Kapil Kaul are skeptical, pointing out that a regional airline might cost less than a national carrier but expenses could still tote up to Rs300 crore. The cost seems to have little effect on the ambitions of regional carriers. Some are ready to take deliveries of new aircraft ahead of operations. Chennai-based Star Aviation, which has an aircraft purchase deal estimated at \$220 million (Rs1,071 crore) with Brazil's Empresa SA, will take delivery of the first of its Embraer 170LR jets in April. Initial operations will start between 3 cities. Star has not made any changes in plans announced last year and the airline will have five aircraft running in its fleet by the end of fiscal 2010.

The regional carrier plans to fly sectors such as Delhi-Lucknow and Delhi-Kullu, to start with. ZAV Airways in Kolkata has scrapped plans of using ATR turboprop aircraft and will instead fly Bombardier-made CRJs. ZAV chairman Kishor Zavery said they were likely to launch services before the end of this year.

Conclusion

Till now the developments which are going on for creating new regional airports and entering of new regional airlines in the Indian aviation sector is not sufficient for the vast population. There are PPP in developing and creating new regional airports but still it can be better by cooperation of ideas. The task at hand is very huge. This challenge can be addressed through formulation of a comprehensive airport infrastructure plan, formulation of policies and guidelines, changes in the existing policies and guidelines and formulation of comprehensive financing plan. All these initiatives will enable the development of airport infrastructure on PPP to meet the growing demand of airport traffic and offer the globally comparable service standards at competitive rates. And regarding regional airlines, the routes and connectivity of those are to be increased and they should enter into competition with the national airlines.

Endnotes

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