RECENT CHANGE IN AIR DEREGULATION IN INDIA AND ITS IMPACT ON AIRLINE COMPETITION

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ABSTRACT

Air transport of India has experienced rapid growth and major reforms over the past one decade, some of which have been partially successful and continue to this day. Improvements in airline regulation gained momentum and now demand is accelerating in developing countries, especially in India where growth is rapid. The paper aims to analyze air deregulation of India experience over the past one decades and its impact on airline competition from a geographical perspective.

Keyword: - *Impact, Geographical, Air Deregulation, and Rapid Growth etc.*

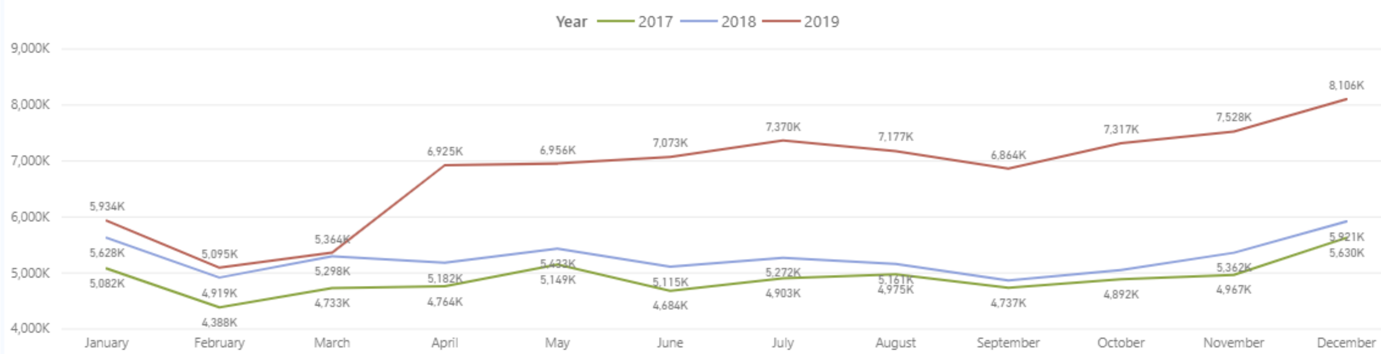
1. INTRODUCTION

In the 1930s and 1940s the world's emerging airline industry was characterized by financial instability, and governments in many countries considered that intervention to avoid 'useless' or 'destructive' competition (Pickrell, 1991; Kirby, 1981) were required[1](p.-105). For three decades until the mid-1980s, India heavily controlled its airline industry. It banned foreign and private domestic commercial airlines from scheduled services operating within the country, while state-owned domestic airline Indian Airlines enjoyed a monopoly. This was in line with the country's socialist-oriented approach towards economic development, which restricted private sector participation, foreign trade and foreign direct investment. However, since the early 1990s, as part of a macroeconomic liberalization agenda, India is in the process of opening up its civil aviation sector to private domestic and foreign players, including the airline industry[2](p.-1). In less than two decades, India had only two airlines offering scheduled air services: Indian Airlines for domestic travel, and Air India for international travel. The first elected government of independent India established both airlines in 1953 by acquiring and consolidating several private commercial carriers offering scheduled air services. Private commercial airlines offering scheduled services will not re-emerge until 1994, three years after India's eleventh elected government reduced barriers to private sector participation, foreign trade, and foreign direct investment in the country's economy. [2](p.-2) The Air Corporation Act of India, 1953, which established the Indian Airlines' monopoly in domestic scheduled services, was repealed in 1994. This allowed private domestic commercial airlines to operate scheduled services within the country. [3] Since then, many other countries have liberalized airline competition and, although the 'destructive competition' argument still holds up to its supporters (Dempsey, 1995), the report card on deregulation has been mostly positive (Button, 1989a, 1989b; Kaplan, 1995; Morrison and Winston, 1995, Bureau of Transport and Communications, 1995). Even in thin markets, the community appears to be better off when airlines are free to compete (Daldig and Findlay, 1990). Now, these same pro-competitive attitudes are gaining momentum in developing economies.[2] (p.105)

2. REGULATION OF AIR TRANSPORT IN INDIA[2]

The foundation of the modern Indian airline industry is laid in 1932, when Tata, one of India's largest industrialists, the most diverse corporations, formed a special aviation division. Government of India acquired 49% shares of Air India in 1947. The eleven strongest airlines were merged to form Indian Airlines, and made it a fully nationalized Air-India International and international flag carrier for the government's domestic operator. The government also established the Director General of Civil Aviation under the Air Corporation Act (1953) to regulate its airlines, particularly for the hire and in relation to the provision of services on unprofitable but socially important routes[2].(p.107)

Indian Airlines was not promoting the development of tourism and other industries at the regional level, which was the only significant change in policy as a result of criticisms made during the late 1970s. The government established Vayudoot in 1981 with the intention of focusing on developing regional and feeder services. Indian Airlines landed 25 million domestic passengers in 2018/2019, but the independent assessment was that the market could grow to 50 million by 2019 if capacity restrictions are removed and services are improved in 2019 to a more competitive market . (Louden, 1993).[2](p.-108)



MonthName	2017	2018	2019
January	5,081,944	5,627,984	5,934,333
February	4,388,320	4,919,154	5,095,048
March	4,732,711	5,298,048	5,363,637
April	4,763,790	5,182,252	6,925,169
May	5,149,378	5,433,443	6,955,766
June	4,683,984	5,114,839	7,072,629
July	4,903,254	5,272,258	7,370,137
August	4,974,587	5,161,256	7,177,426
September	4,737,430	4,865,067	6,864,289
October	4,891,780	5,053,922	7,317,368
November	4,967,367	5,361,707	7,527,931
December	5,629,644	5,920,911	8,106,324

Source: http://www.knowindia.net/aviation.html

3. LIBERALIZATION DOMESTIC AIRLINE COMPETITION

The introduction of air taxis in 1986 had little effect and in 1990 the rules were relaxed with the intention of increasing capacity on tourist routes. And important work is going on to increase capacity on the tourist routes of 2019-2020. (p.-109)[2] East West Airlines had a ready-made distribution system as its financial backers had a major Indian travel group. Its fleet of seven B737-200s and three F27s had immediate impact and in 1992–1993 it became a private sector airline carrying more than 1 million passengers a year. [2](p.-109) Meanwhile, Jet Airways, Damania Airways and Modiluft emerged as serious competitors. Jet had taken full advantage of the government's approval for foreign airlines to invest in Indian carriers, with Kuwait Airways and Gulf Air holding 20% of each share of Jet(p.-109)[2]. Indian Airlines was able to improve its service standards,[6] but its financial problems continued. The government pressed in with its reforms in 2014 when it took steps to corporate Air India and Indian Airlines and legalize the scheduled services of new carriers.[2](p.-109) The published guidelines made it clear that each application would be evaluated on its merits. Criteria included financial fitness and the ability to retain aircraft and train crews but the specifications included a minimum fleet of 3 jets. Regulation of fares continued and the government insisted on the new airlines' share in the burden of servicing socially significant and low-density routes. Airlines were required to spread their capacity across three categories of routes.[5] The main trunk routes formed a group, while category II included the 'social' routes to the north-east, Jammu and Kashmir and the Andaman Islands. Category III consisted of all remaining routes. [2](p.-109) Any scheduled carrier intending to enter trunk routes had to make up 25% and 75% of its available seat kilometers for Category II and III routes, respectively. In addition, 25% of the capacity devoted to Category II was to be along the least economically rewarding routes in those areas. Within these constraints, private sector airlines were able to expand their services, so that by 2018-2019, they carried a total of over 25 million passengers and reduced the market share of Indian airlines from 100% to less than 60%(p.109) .[2]

4. COMPARISON OF THE RESULTS OF MORE LIBERAL AVIATION POLICIES IN A DEVELOPED AND DEVELOPING ECONOMY[2]

The increase in capacity led to higher frequencies, improved reliability, and new entrants occupied more than 60% of the market by 2018-2019[2](p.-110). The airline was formed as a public company in 1946 and later renamed 'Air India'. Prices were reduced by up to 50%.[3] Even when Compass failed to survive, the average fare in 2019 was less than 25% at the start of demolition in 2014. The discount range is less than the average fare 2 0% to 3 0% below the published level.[2] In India, real air fares increased by 20% in the period between 2016 and 2019 and the discount is not comprehensive.[4] Traffic figures in Table 1.1 show how the Indian market expanded. The decline in 2018 -2019 was due to pilots' controversy and strong growth rates for the following period indicate an accelerated recovery. However, the challenge in India is to maintain this performance. Between 2018-2019, during which liberalization in both countries proceeded, India's market grew by 50%.[2]

Table 1.1: Growth in airline markets - India

Financial year	Passengers (millions)	% Change on previous year
2010	18.96	15
2011	20.66	18.2
2012	19.99	6.6
2013	19.23	9.2
2014	15.82	34
2015	17.28	18.6
2016	15.72	18.2
2017	19.48	47.8
2018	21.76	23.4
2019	24.26	23
Average annual rate of growth		
2014-2019	4.4%	2.7%;
Ratio of 2019 traffic to 2014 traffic	2.76	3.7

Source: Annual Report Director General Civil Aviation (India) (Estimated figures)

Table 1.2 Distribution of traffic in terms of passengers uplifted and discharged at top 50 airports India 2018-2019

Group of airports (ranked by passengers)	Passengers (millions)	Share of total (%)
Top 5	33.02	70.1
Top 10	40.32	79.9
Top 15	4316	85.4
Top 20	45.38	90.8
Top 50	50.9	99.6
Herfindahl Index	.24	

Sources: Annual Report Director General of Civil Aviation (India); (Estimated figures)

5. DEREGULATION PROCESS OF AIRLINE INDUSTRY IN INDIA

This paper updates how development has been prioritized, covering the recent changes that the Big Three ", and details of recent improvements and further analysis of the airline industry. The review is used to identify the key phases of the de-regulation policy, which have been used in the analysis.

1. Pre-reform tight regulation (before 2013)
2. Transitional stage (2014–2015)
3. State-led consolidation and privatization (2016–2019)

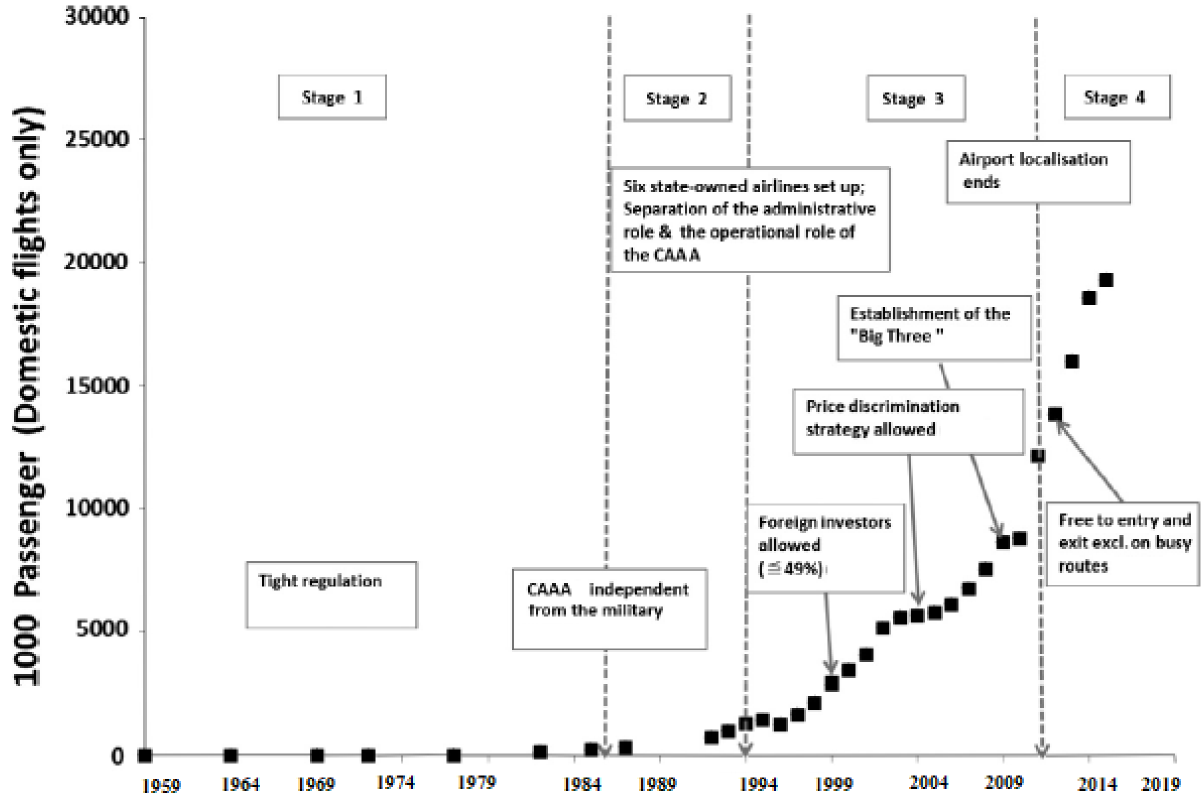


Figure 1.1: Chronology of key regulatory measures by the Chinese state during 1959–2019. (Estimated figures)

6. AIRLINE COMPETITION MARKET CONCENTRATION

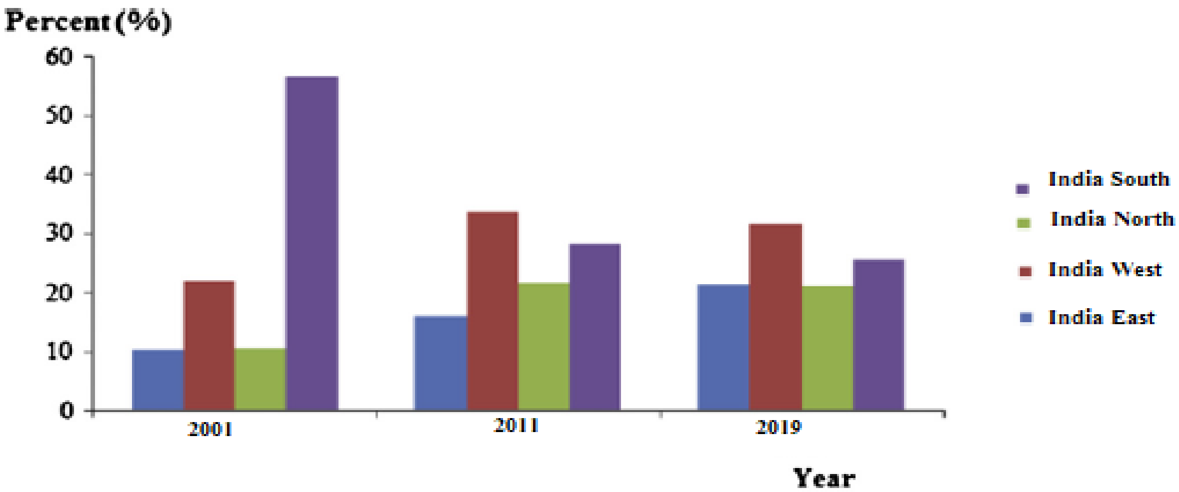
The number of airlines decreased from 25 to 10 during 1994– 2004, with the consolidation of regional airlines, with the merger into the Big Three, and then back to number 18 with entries from new airlines during 2015–2019. In terms of market competition index, average airline competition at airports first declined from 6 .0 in 2015 to 7 .77 in 2017 and then increased to 5 .8 in 2019 (Table 1.3), from levels still in 2015 Is a little less. Regarding air routes, the market competition index shows a similar trend, although in 2019 it is higher than in 2014. On average, the number of airlines operating in airports and air routes reached 5 .75 and 3 .96 in 2014, respectively, which does not differ much from that in 2019. In other words, airports and air routes based on market competition index have become more competitive after 2019.[7] In all three years, the market concentration index for flights is relatively low, which means the aviation market is not highly concentrated in India and seems competitive. In particular, the flight-based HHI index showed a growth trend in 2019 and peaked at 0.2 44, more than doubling the level of the 2014 aviation market. As the market competition index shows that the air market is slightly more competitive since 2019, while market concentration on flights has increased twice, the results show that more airlines have entered the market, but due to increased dominance The market has become more concentrated of large operators. Such growth in both competition and concentration has occurred in China, where the market is growing rapidly and this can be partly attributed to air deregulation (Fig. 1.2).[6]

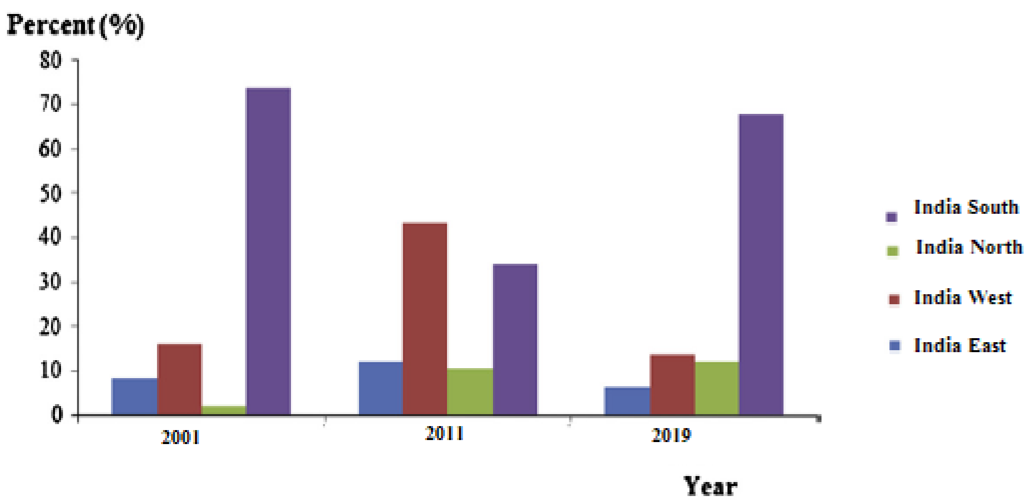
Therefore the air deregulation policy has definitely had an impact increase in number of private and locally owned airlines but overall, the main thrust of the policy, to promote development has been effective as a national champion, as the overall aviation market is still dominated by the 'Three Big Three' because of their incumbent advantages, especially at busy airports and high demand air routes.[8]

Table 1.3: The competition of India air industry by airline group

	Market competition index (average)		**Market concentration index**
Year	**Airport city**	**Air route**	**Flight**
2001	10.0	3.44	.134
2011	7.46	3.4	.198
2019	9.4	3.72	.288

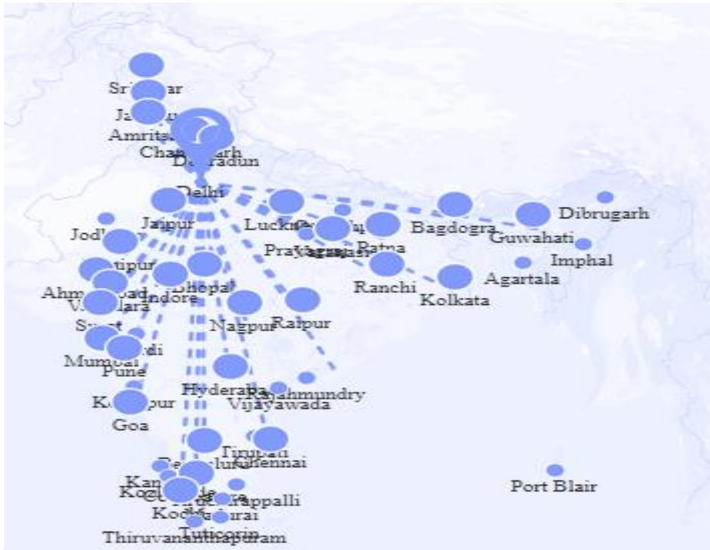
Data source: Own calculation based on the timetable of all Indian carriers(Estimated figures)





7. CHANGES IN THE GEOGRAPHY OF COMPETITION IN ROUTES AND AIRPORTS

Prior to 2015, some monopoly airports (scores on the market competition index were identified) in state-led consolidation, were located in the eastern region. Recently however, most monopoly airports have been located in central and western India due to low demand levels for air travel and those areas.[9] In contrast, airports in the eastern region are usually operated by three or more airlines. The market concentration index reflects airports and air routes in the eastern regions, more competitive than those in the central and western regions, even though there are more and more airports and air routes have become more competitive over time. To compare the changes of airline competition in each Over time, airports and air routes, 79 airports and as of December 2019, Air India flies to a total of 102 destinations including 5 45 domestic destinations and 55 international destinations in 31 countries across five continents of the world. All were conducted in three years (2019 and 2020) which were selected for further analysis. During 2010–2019, airline competition has increased at two-thirds of airports and one-half of the routes.[10]


Delhi
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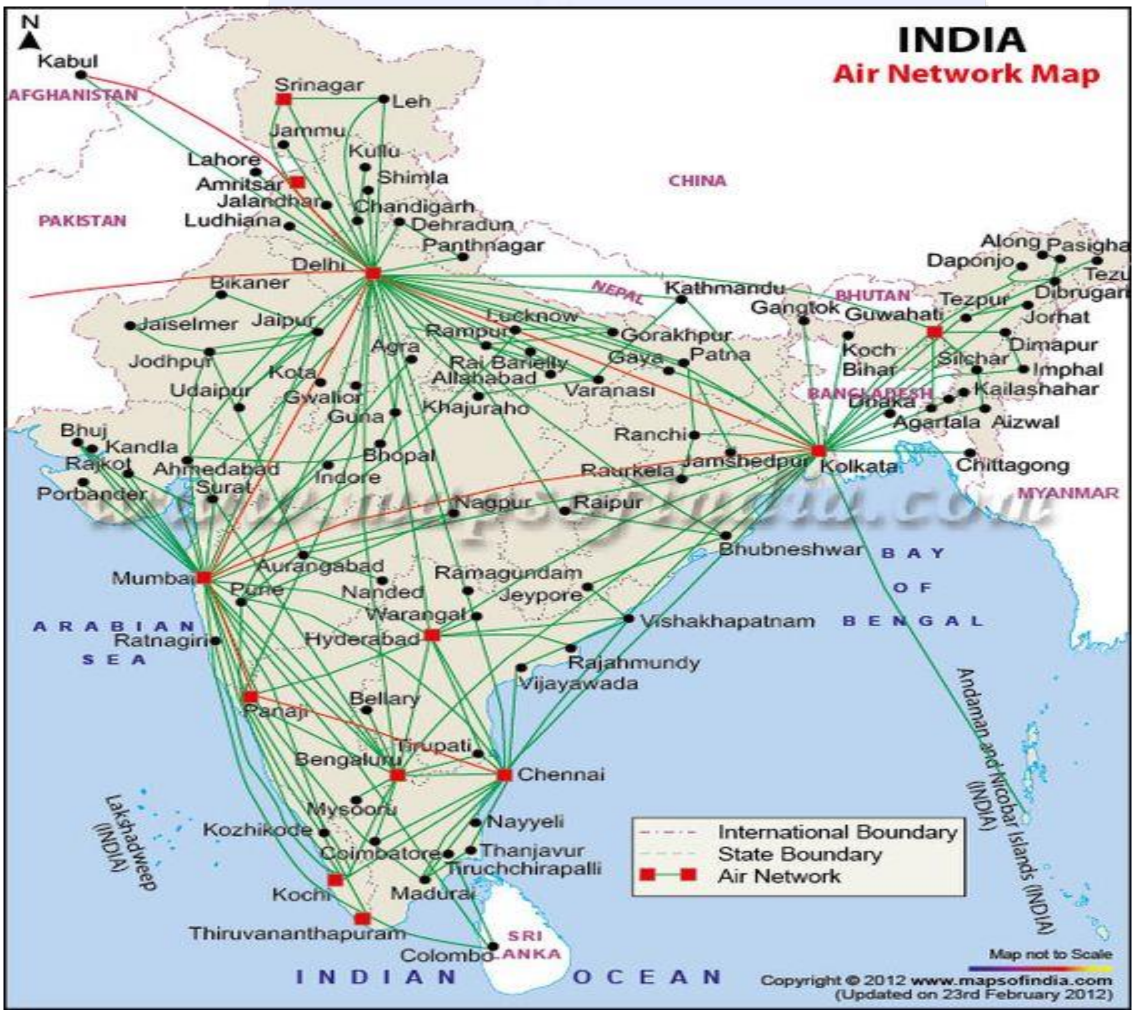
Agartala
Ranchi
Kolkata
Nagpur
Raipur
Goa
Port Blair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INDIA
Air Network Map
Kabul
AFGHANISTAN
PAKISTAN
CHINA
NEPAL
BHUTAN
BANGLADESH
MYANMAR
SRI LANKA
Srinagar
Leh
Jammu
Kullu
Shimla
Lahore
Amritsar
Jalandhar
Chandigarh
Ludhiana
Dehradun
Panthnagar
Delhi
Bikaner
Jaiselmer
Jaipur
Jodhpur
Udaipur
Kota
Gwalior
Agra
Guna
Bhuj
Kandla
Rajkot
Porbander
Ahmedabad
Surat
Indore
Bhopal
Khajuraho
Lucknow
Rampur
Gorakhpur
Rai Barielly
Allahabad
Varanasi
Gaya
Patna
Kathmandu
Gangtok
Guwahati
Koch Bihar
Silchar
Tezpur
Jorhat
Dimapur
Imphal
Kailashahar
Agartala
Aizwal
Dhaka
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Dibrugarh
Ranchi
Jamshedpur
Raurkela
Kolkata
Chittagong
Nagpur
Raipur
Bhubneshwar
Mumbai
Aurangabad
Pune
Nanded
Ramagundam
Jeypore
Warangal
Hyderabad
Vishakhapatnam
Rajahmundy
Vijayawada
Ratnagiri
Panaji
Bellary
Tirupati
Bengaluru
Chennai
Mysooru
Kozhikode
Coimbatore
Nayyeli
Thanjavur
Tiruchchirapalli
Kochi
Madurai
Thiruvananthapuram
Colombo
ARABIAN SEA
BAY OF BENGAL
INDIAN OCEAN
Lakshadweep (INDIA)
Andaman and Nicobar Islands (INDIA)
International Boundary
State Boundary
Air Network
Map not to Scale
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(Updated on 23rd February 2012)

The top 100 routes and the lower 100 routes can be defined as trunk routes and thin routes by frequency of flights per week. In 2000, 100 trunk routes had 54.9% flights and in 2014 the ratio was reduced to 48.6% and in 2016 to 38.1%. In contrast, 100 thin routes accounted for a significantly lower percentage of total flights (3.9% in 2014). 2.5% in 2004, and 0.89% in 2017). Overall, all trunk routes were operated by two or more carriers, while all thinning routes were operated by a single carrier in 2017.[11]

8. CONCLUSIONS

There is clear evidence of positive effects on airline delegation, such as increasing domestic competition, decreasing airfare, increasing productivity, and removing unnecessary government regulations. The challenge for India is to prepare a subsidy scheme to meet its community service obligations. This mixture of low and high density routes creates greater economic stress in the industry in India, but contributes to the rules by increasing the cost of starting and operating an airline while fares are set at relatively low levels. The air deregulation process is still under development, and the next set of decisions may include policy approaches for low-cost carriers. This issue will involve fundamental questions about the future, whether a much more liberal approach to market competition should be adopted, or whether the more centralized state capitalist approach currently used in China as a sustainable and stable structure A dynamic area of transport under which such an event is to be seen. The deregulation process has increased competition levels between airlines. Analysis of the market competition index shows that airline competition has declined during 2009–2013 and rebounded between 204 4 and 2019; This index shows the number of contestants. In contrast, the market concentration index reflects market shares and confirms that airline competition declined between 2012 and 2015. The percentage of monopoly and duplex airports and air routes has also decreased. In geographical terms, more than two-thirds of airports, and half of the air routes, have become more competitive, mainly in airports in the eastern region (with the most prosperous air market), and less intense central and western regions, where time Competition declined with.

9. REFERENCES

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