WHERE IS INDIAN AVIATION HEADED?

News / Airlines



The air traffic system in India is not immune to severe shocks—such as the one in 2010—during which traffic figures plummet and wreak havoc on the industry. The wave of airline mergers, which had occurred only a few years before and was actively encouraged by the ministry of civil aviation, did not prove conducive to making India's airlines more resilient or competitive.

Kingfisher Airlines had to ground all operations by 2012, the 'new' Air India (as in NACIL) remained true to its unflattering legacy, and Jet Airways—allegedly strengthened after integrating Air Sahara—had to seek out Etihad Airways for a de facto bailout, which they termed an "alliance".

Wrong, proponents of India's aviation policy (then led by the Congress and the Nationalist Congress Party) may say: several new airlines had been granted licences and had started to operate as early as 2006 and '07. Moreover, these carriers were positioned as low-cost airlines. Wouldn't India's growing middle class inevitably benefit from such policy moves? Wouldn't private investors in these new airlines benefit from the creation of shareholder value? Weren't these prime examples for effective market competition and apt implementation of market deregulation?

By 2014, India's air traffic (in terms of domestic flight movements) by and large had recuperated to

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pre-crisis levels with many airports even showing higher numbers. However, a structural shift had become visible, affecting traffic distribution across the entire domestic traffic system: only the top 55 airports or so had rebounded to growth, while the smaller 25 to 30 were left with smaller operations as compared to 2006.

Some observers from the investment community might regard this as a natural phenomenon, possibly perceiving growth in inequality as a natural corollary of having deregulated markets. However, these “expert opinions” might be questioned: apart from rising inequality, the infrastructural cohesion of the Indian nation state also suffers. Differences with China could not be starker: there, airline networks continued to expand spatially and grow traffic with an airport base that continued to be about triple that of India’s.

Even though one might attribute shocks and distortions in India’s air traffic system partly to the disappearance of Kingfisher after 2012, rapid growth from privately financed and managed low-cost carriers would have had time to more than compensate for this “loss”. More importantly, point-to-point route operations of low-cost airlines would tend to establish new traffic outside of the main (and often congested) airports and thus render the overall air traffic system both more robust (i.e. more resilient to shocks) and more equally distributed (across the Indian geography).

Unfortunately, this is not what happened: all airlines (including Kingfisher) showed clear and time-sustained patterns of spatial focus around the same few airports, most notably New Delhi and Mumbai. Such allocation behaviour might not be surprising for legacy carriers (i.e. Air India and Jet Airways); the managements would even coyly describe it as ‘hub-and-spokes’, a term that would automatically stop any further critical inquiry into the strategy. Kingfisher, in particular, had ramped up tremendous capacity both at New Delhi and Mumbai airports, in effect relegating its declared Bengaluru hub to third rank by 2010.

Unfortunately, such questionable patterns of spatial concentration could also be observed for ‘low-cost’ entrants: from day one of their operations, IndiGo, SpiceJet and GoAir had their largest shares in traffic at New Delhi and Mumbai (with SpiceJet giving up slots at Mumbai only by 2014). Thus, not only had the dominant role of both airports within India’s air traffic system remained unaffected by ‘low-cost’ entry, in fact, it became even more consolidated.

How service through extravagant and high-cost ‘world-class’ terminals would help to render, say, IndiGo’s operations more efficient, or provide for cheaper tickets due to lower airport costs, remains a mystery. Surely, emphasis has not been laid on developing point-to-point traffic across India’s 50-plus other cities with populations in excess of 1 million each. Rather than competition, we observe clear patterns of mutual accommodation as well as extensive overlap of service for denser routes. It is a fallacy to believe that such patterns would stimulate competition. Competition would have forced airlines to carve out new markets and grow their networks into new geographies.

Such unbalanced traffic allocations ‘at the top’ may have been expected to naturally trickle down to the remainder of the network; however, a hub-and-spoke structure per se does not guarantee such development.

It is striking that over a 10-year period, each Indian carrier focused on the same two airports. It is difficult to comprehend why frequencies between New Delhi and Mumbai alone would remain well above those for other intra-metro flights—not just from a cumulative perspective, but for each single airline! No real spatial segmentation of airlines’ networks has emerged in this critical stage of industry transformation through market entry by allegedly competitive operators.

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Future traffic can be expected to grow further on already well-served routes, while smaller airports will benefit at best from limited ‘trickle-down’ effects. One can expect the longer-term effects of such poorly differentiated structures to weigh on India’s overall competitiveness: it is another fallacy to believe that by steadily overspending at the top—while keeping the lower end of India’s air traffic system underserved—one could achieve greater welfare and sustained development for the nation.

Again, one may look to China for comparison: over the past 10 years or so, the country permitted entry to many airlines, with most of them being differentiated and showing distinct patterns of growth, rather than sheer mimicry. This translated, for example, into numerous new and spatially better segmented route networks. Getting these crucial steps right would greatly contribute to India’s successful future in domestic aviation.

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