

FDI limits relaxed to boost aviation investment

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Civil aviation is one of the fastest growing sectors in India's transport industry; its domestic market alone saw dramatic growth, with a 25% increase in the number of flights scheduled in May 2007 compared to previous year, according to statistics from the Official Airline Guide (OAG).

This figure represents a staggering 1.7 million additional seats and 8,631 more flights for passengers travelling within India. Interestingly, low-cost carriers which are still a recent phenomenon in India, appear to be performing exceedingly well.

The sector remains equally bullish on the international front, with the number of flights into and out of India rising from 6,800 in May 2001 to 13,200 in May 2007.

The unprecedented boom has attracted several new entrants to the sector, with the recent acquisition of Air Sahara by Jet Airways, the Air India-Indian Airlines merger, and Kingfisher Airlines' new stake in Air Deccan. The Indian Aviation Outlook Summit 2008, being held in Mumbai this month, will prompt investors to gain further insight into the high-growth areas within the sector.

Infrastructure shortfalls

The pressure of increasing passenger numbers, and the scrutiny accompanying aviation mergers and acquisitions, has revealed that the passenger and cargo-handling facilities of Indian airports are seriously inadequate.

There is an urgent need for world-class gateway airports to provide aviation services and passenger and cargo facilities to meet global standards of efficiency and security.

In order to address this need, the government of India has recently liberalized its foreign direct investment

(FDI) policy relating to civil aviation infrastructure and air transport services (ATS), and has started to invite private participation to contribute towards the modernization of major airports.

Expanding scope

On 12 March 2008, the government introduced Press Note 4 of 2008, expanding the scope of activities covered under its existing policy for the civil aviation sector. These modifications to Press Note 4 of 2006, dated 10 February 2006, have altered FDI regulations affecting the sector. In line with the new policy, ATS now includes domestic scheduled passenger airlines, non-scheduled airlines, charter airlines, cargo airlines and helicopter and seaplane services.

The civil aviation sector also includes other services such as ground-handling services, maintenance and repair services and training institutes.

FDI restrictions

Under the new policy, the limit for FDI in scheduled ATS and domestic scheduled passenger airlines is kept at 49% for total project investment, while non-resident Indians may invest up to 100%.

The limit for FDI in non-scheduled ATS has been raised to 74%, while non-resident Indians may invest up to 100%.

FDI of up to 100% is now permitted for helicopter and seaplane services, subject to approval by the Directorate General of Civil Aviation. A notable condition of these regulations is that foreign airlines are not permitted to hold any equity in ATS, whether in scheduled, non-scheduled or chartered airlines.

FDI of up to 74% is allowed for ground handling services, while non-

resident Indians may invest up to 100%. FDI of 100% is also allowed in maintenance and repair services and training institutes.

Airport building

The building of a greenfield airport is permitted when an existing airport is unable to meet projected traffic requirements. It can be allowed either as a replacement for the existing airport or for simultaneous operation. When permitting a greenfield airport, the government will designate it as a public, private or joint venture project. For example, in Bangalore and Hyderabad, the government initiated the construction of greenfield airports on a build, own, operate and transfer basis with private sector participation.

FDI of up to 100% is allowed for existing airport projects, subject to ministry regulations, although investments above 74% require prior approval by the Foreign Investment Promotion Board. FDI of 100% is permitted through automatic channels for greenfield airport projects, subject to regulations by the Civil Aviation Ministry. With the introduction of Press Note 4 of 2008, the government has further opened the door for foreign investment in the civil aviation sector.

A significant restraint has been retained nevertheless, preventing foreign airlines from participating directly or indirectly in the operation of scheduled, non-scheduled and chartered airlines.

Overall however, the encouragement of FDI by these policy changes can be viewed as a step in the right direction for the Indian civil aviation industry.

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