

Mayday in April

As India grapples with a largely self-inflicted second wave of the pandemic, air traffic has collapsed, just like the country's healthcare system. Traffic plummeted by 67 per cent in a matter of weeks, and the market leader cut capacity by almost half of what it had inched up to after the first wave, as did the other carriers. Till February, traffic was reviving, March it held up but in April, there has been a collapse as expected.

Aviation experts and analysts said that the second wave was likely to be crippling for a sector that was already gasping for air. Many airlines have stayed afloat by delaying payments to vendors, suppliers and lessors while cutting back sharply on salaries and overheads. While this could be stretched for a few quarters, the present scenario, many felt, was both "lethal" and "untenable".

What can the government do in this scenario to ensure that airlines survive the carnage and we have a semblance of an aviation sector to speak of? The time has certainly come to act, rather than just talk, by lending a helping hand; else the price paid by the country may be higher than we imagine. Reality cannot be delayed endlessly, and it's better to be safe than sorry.

Perhaps the best option before the government is to announce the closure of Air India, a move that would help it save roughly ₹10,000 crore a year, sell some assets and use the money to pay off some of the airline's debts and a fraction of the money saved to render the rest of the sector healthier. But even if

it is unwilling to explore the politically unpalatable option of closure, it has to put the sale on hold for now — egos and national prestige notwithstanding. Instead, the government should worry about the immediate crisis on hand.

There is no magic wand available but the government can step in and make the airlines' life easier by taking a series of small steps. To begin with, capacity deployment should be cut, mandated by the government to ensure discipline among players. This, in turn, helps increase yields. The fare bands that are currently in place need to be increased by at least 10 per cent at both ends — upper and lower. Maintaining a lower band remains crucial to avoid the tendency to deeply discount in a bid to outprice rivals, something all airlines tend to do from time to time.



OUT OF THE BLUE

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Then, the sector needs to be able to access funds through the emergency credit guarantee loan scheme introduced by the finance ministry in the aftermath of the pandemic. The way it is currently structured, none of the airlines has been able to use it to its advantage. The scheme would allow each airline to borrow a certain amount from its banks with a government guarantee backing the loan.

The long-pending matter of bringing aviation turbine fuel (ATF) under the goods and services tax (GST) needs to be tackled on an urgent basis. This should be done while keeping the GST amount paid on economy seats at 5 per cent, as at present.

Currently, the airlines pay GST of 5 per cent to the government when they sell an economy seat and 12 per cent for a business seat. The government has been planning to bring ATF under GST and increase the economy seat tax to 12 per cent. Reduction of duties on ATF for one year would cost the exchequer around ₹2,600 crore, but it would help almost every airline's bottom line significantly. This requires the nod of the states, and the Centre should lose no time in seeking their agreement.

Unreasonable charges need to be waived off. For instance, the Airport Authority of India had been charging 18 per cent interest (it has reduced interest to 12 per cent from April) on delayed payments from the airlines since the March 2020 lockdown. Does it really expect anyone to pay this and, if so, when? How?

There's a refund of just over ₹1,000 crore of the amount due to the airlines from the government on another disagreement relating to duties levied on aircraft part imports, a case won by the airlines but where the refunds have not been made. The airlines are also seeking a 50 per cent cut in airport levies for the next six months that could ostensibly help them save ₹1,200-1,400 crore. The government needs to step in to see what it can do to spread the pain fairly across airport operators and airlines. In addition to all of the above, there are a few smaller steps like suspension of GST payments, reduction in bank guarantee periods against airport charges and levies and abolition of royalty charges, all of which can help for now.

Globally, governments have stepped in to save airlines from the brink of disaster, but India has so far done nothing to resuscitate the sector. It's a now or never moment.