ISSN 2349-6193
Impact Factor: 2.805

IJESMR

International Journal OF Engineering Sciences &Management Research

CRITICAL REVIEW OF 100% FDI IN DOMESTIC SECTOR AIRLINES IN INDIA

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Keywords: *FDI (Foreign Direct Investment), FIA (Federation of Indian Airlines), Qatar Airways, foreign-owned airline*

ABSTRACT

In June, 2016, the Indian government had allowed Indian carriers to be fully owned by foreign entities. While foreign carriers will still be required to have up to 49% stake in airlines here, they can now get a foreign partner — like a sovereign wealth fund or an institutional investor — and not look for an Indian partner to put in the remaining 51%. Qatar Airways has, therefore, planned first fully foreign-owned airline in the Domestic Sector of India. According to the proposed provisions, if an Indian airline has more than 49% foreign ownership, then there may be an issue in getting the bilateral rights for flying abroad. But there will be no bar on flying within India. But, the Federation of Indian Airlines (FIA), comprising Jet Airways, IndiGo, SpiceJet and GoAir, is planning to oppose Qatar Airways' (QA's) Indian plan on the ground that it will be a complete sellout of Indian interests as it hurts desi airlines. It is a complete reversal of 'Make in India'," said an FIA member. FIA had used the same argument to oppose Singapore Airlines and AirAsia's JV airlines with the Tata Group in India saying that FDI in airlines was allowed to ensure that existing Indian carriers get much-required funds and expertise and not for JV startups. The government, however, dismisses this view saying that we have to distinguish between investment and operation. The investment and carrier may be 100% foreign, but the airline will be 100% Indian in terms of giving jobs, operations and expenditure. It will benefit Indian economy tremendously

INTRODUCTION

Qatar Airways has for many years been eyeing a stake in IndiGo but the Indian budget carrier could not do so. In June, 2016, the Indian government allowed Indian carriers to be fully owned by foreign entities but operated within India. While foreign carriers will still be required to have up to 49% stake in airlines here, they can now get a foreign partner — like a sovereign wealth fund or an institutional investor — and not look for an Indian partner to put in the remaining 51%. Qatar Airways has, therefore, planned first fully foreign-owned airline in the Domestic Sector of India. Currently, flying licences are given to an airline in India only if its chairperson and two-third of the directors are Indians and if the SOEC (substantial ownership and effective control) is with Indian nationals. The issue of SOEC being with Indians arises at two times -- issuing the operating license and giving bilateral rights that India has to its airlines for flying abroad. The requirement of SOEC is also a condition from International Civil Aviation Organization (ICAO) regarding bilateral rights. Which means if an Indian airline has more than 49% foreign ownership, then there may be an issue in getting the bilateral rights for flying abroad. But there will be no bar on flying within India. At present, only three Indian carriers have investment by foreign airlines. Abu Dhabi's Etihad has a 24% stake in Jet Airways. Tata Group holds 51% stake in Vistara and AirAsia India each, with Singapore Airlines and AirAsia Berhad having the remaining 49% in them respectively. However, the Federation of Indian Airlines (FIA), is planning to oppose Qatar Airways' (QA's) Indian plan on the ground that no country allows 100% foreign-owned domestic carriers. "Indian carriers cannot own or control airlines in other countries. It will be a complete sellout of Indian interests as it hurts desi airlines. The government, however, dismisses this view. "We have to distinguish between investment and operation. The investment and carrier may be 100% foreign, but the airline will be 100% Indian in terms of giving jobs, operations and expenditure. It will benefit Indian economy tremendously if we have investment in more airlines.

REVIEW OF LITERATURE

1. **Saurabh Sinha (2017):** India may soon get its first fully foreign-owned airline after the Indian government allowed 100% FDI in the sector last June. Qatar Airways plans to start an airline in India with the investment arm of Qatar government. Qatar Airways has for many years been eyeing a stake in IndiGo but the Indian budget carrier has not done so. Last June, the Indian government had allowed Indian carriers to be fully owned by foreign entities. While foreign carriers will still be required to have up to 49% stake in airlines here, they can now get a foreign partner — like a sovereign wealth fund or an institutional investor — and not look for an Indian partner to put in the remaining 51%.

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However, India is yet to review the issue of "substantial ownership and effective control (SOEC)" in the fully-foreign owned airlines it had allowed last June. Currently, flying licences are given to an airline in India only if its chairperson and two-third of the directors are Indians and if the SOEC is with Indian nationals. The issue of SOEC being with Indians arises at two times -- issuing the operating licence and giving bilateral rights that India has to its airlines for flying abroad. The requirement of SOEC is also a condition from International Civil Aviation Organisation (ICAO) regarding bilateral rights.

Which means if an Indian airline has more than 49% foreign ownership, then there may be an issue in getting the bilateral rights for flying abroad. But there will be no bar on flying within India. At present, only three Indian carriers have investment by foreign airlines. Abu Dhabi's Etihad has a 24% stake in Jet Airways. Tata Group holds 51% stake in Vistara and AirAsia India each, with Singapore Airlines and AirAsia Berhad having the remaining 49% in them respectively.

2. **Sidhartha (2016):** The government in June, 2016 announced fresh liberalisation of FDI rules throwing open food retail, airlines and private security firms to higher overseas investment. "Now most of the sectors would be under automatic approval route, except a small negative list. With these changes, India is now the most open economy in the world for FDI. Although the finance ministry had kicked off discussions on easing FDI rules a few weeks ago, the decision was rushed through.

This is the second major reform in the FDI space. The Centre in last November had significantly relaxed the foreign investment regime. Key changes include allowing 100% FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India and permitting up to 100 per cent FDI in defence sector. The message was quite clear that India is open for business and the government will soon put in place a small negative list of sectors that require approval before investment by foreign players. In case of airlines, however, the government has chosen to restrict overseas carriers from holding beyond 49% while allowing 100% FDI.

3. **Saurabh Sinhal (2017):** Qatar Airways' plan to set up a 100% Qatari-owned domestic airline in India is all set to get a red carpet treatment from the Modi government, but 'old' Indian carriers are gearing up to oppose the proposal tooth and nail. Aviation minister Jayant Sinha told TOI on Thursday that India now has among the most liberal FDI regimes in the world for the aviation sector. "Qatar and other airlines are very welcome to explore how they can establish themselves in India under that FDI regime. Under our regulations, it is possible to have a 100% foreign-owned carrier in India," he said. India since last June, allows 100% foreign-owned domestic carrier, in which a foreign airline can have up to 49% stake and foreign investment arm/s the remaining 51%.

FINDINGS

India will soon get its first fully-foreign owned airline, operated in Domestic Sector as the Central government allowed 100% FDI in the sector in June, 2016. Qatar Airways plans to start an airline in India with the investment arm of Qatar government. Since India now allows 100% FDI, it plans to do so with Qatar Investment Authority. While foreign carriers will still be required to have up to 49% stake in airlines here, they can now get a foreign partner — like a sovereign wealth fund or an institutional investor — and not look for an Indian partner to put in the remaining 51%.

According to the new policy, if an Indian airline has more than 49% foreign ownership, then there may be an issue in getting the bilateral rights for flying abroad. But there will be no bar on flying within India.

In case of airlines, however, the government has chosen to restrict overseas carriers from holding beyond 49% while allowing 100% FDI. In case of private security agencies the government has increased the cap to 74% from 49% but companies need to approval and follow the prescribed norms for the sector. In a statement, DIPP also said that 74% FDI under automatic route would be allowed in brownfield pharma ventures instead of 49% earlier.

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The FIA, comprising Jet Airways, IndiGo, SpiceJet and GoAir, is planning to oppose Qatar Airways' (QA's) Indian plan on the ground that no country allows 100% foreign-owned domestic carriers. It will be a complete sellout of Indian interests as it hurts desi airlines and will lead to setting up of another hub for Indian traffic abroad

India now has among the most liberal FDI regimes in the world for the aviation sector. Qatar and other airlines are very welcome to explore how they can establish themselves in India under that FDI regime. Under our regulations, it is (referring to the QA base of Doha).

CONCLUSION

This is the second major reform in the FDI space. The Centre in last November had significantly relaxed the foreign investment regime. Key changes include allowing 100% FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India and permitting up to 100 per cent FDI in defense sector. The other sectors that have benefitted include the broadcasting, pharmaceuticals, civil aviation, single brand retail among others. The message is quite clear that India is open for business and the government will soon put in place a small negative list of sectors that require approval before investment by foreign players.

India since last June, has allowed 100% foreign-owned domestic carrier, in which a foreign airline can have up to 49% stake and foreign investment arm/s the remaining 51%. In this concluding paragraph we can say that while it is construed to be a reversal of the provisions of 'Make in India' program announced by the Central Government to make India a manufacturing hub, but it is also a fact that this will result into the fierce competition among domestic airlines and will benefit the end user. There is therefore a need to tweak the policies in such a manner that while the interest of the existing operators are suitably protected, there is a healthy competition among all domestic carriers. There is a need to ensure that they are not only able to maintain the present level of revenues and profits but also able to pass on the maximum possible benefits, (without compromising on the quality of services) to their customers.

In this direction, the government need to do a balancing act by reducing landing and parking charges, taxes and fuel prices so that, due to the cut throat price competition, any other Domestic Airline does not turn out to be a loan defaulter like Vijay Mallya owned Kingfisher Airline.

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