

Aviation Startups: Policy and Legal Challenges

Prof. V.BALAKISTA REDDY

Professor of Law & Registrar

NALSAR University of Law, Hyderabad

Email: balakista@gmail.com

www.nalsar.ac.in

Scheme of Discussion

- Background of Startups-Global and National
- Eco-system of the Startups--What is Start-Up? Nature of Start-ups, Growth of Start-Ups, Advent of Start-ups in India, Future Scope
- The legal framework regulating business including (i) the Incorporation and establishment of Company (ii) Labour Policy (iii) Free and Fair competition/ Protectionist regime (iv) Scheme of rehabilitation and Revival (v) Dispute Resolution
- Company and Allied Laws Applicable to Aviation Startups, Business Models for Start-Ups, Formation of Business Entity in India, Financing Models for Start-ups
- Other Regulations including Environmental Law, IP Law, RBI Regulations, Labour Laws, GST Laws
- START-UPS IN AVIATION SECTOR--Advent of Aviation in India; Types of Aviation businesses: Conventional: Airlines, Airports, MRO, and Unconventional: Air Taxies, Air Ambulances, Drones

Background of Startups

- **What is Globalization?** Globalization is the term used to characterize the processes of growing interconnection and interdependence among the different nations of the world
- In this age of globalization and interdependence, principles of international business transactions affect all states, small and large, rich and poor, weak and powerful alike.
- Many of the structural changes that have taken place in the world economy since the early 1980s resulted liberalizing of capital markets and the capital remains no longer domestic; it moved freely across borders. Manufacturing was also no longer a domestic process
- **Positive and Negative Impact of Globalization**

LPG and Its Impact on Civil Aviation

- Privatization, cross-border acquisitions, market alliances, merger and restructuring of airlines in the wake of liberalization of air transport and deregulation are all leading towards market oriented international aviation environment.
- Airlines of many countries are in various stages of privatization.
- Airports Privatization is happening in many parts of the world including developing countries.
- The Asia/Pacific region offers abundant opportunities as the fastest growing aviation region in the world.
- The reasons for this optimism includes the strong economic expansion, significant ethnic ties with various countries, increase in leisure time, moves towards air transport liberalization and vigorous efforts to promote tourism to/from the region.

Background of Startups Cont..

- Globalization and India: India Globalized its economy in 1991 With Mounting problems- huge fiscal deficits, BoP crisis and foreign exchange crisis, Foreign investors and NRIs had lost confidence in Indian economy
- Major measures as a part of the Globalization strategy, Devaluation of Currency, Disinvestment, Dismantling of The Industrial Licensing Regime Abolition of the MRTP Act , The Foreign Exchange Regulation Act, 1974 (FERA), and Foreign Exchange Management Act
- FDIs and The Foreign Investment Promotion Board (FIPB)
- Export Processing Zones (EPZs) and Export Oriented Units (EOUs): Allowing Foreign Direct Investment, Wide-ranging financial sector reforms
- Reforms relating to the banking sector and Insurance Sectors
- Reforms in the capital market□ SEBI- the apex regulator of the Indian capital markets□ Regulations were framed for insider trading□ Abolition of capital issues control□ Introduction of free pricing of equity issues□ On-line trading was introduced at all stock exchanges

Recent Positive Changes for Startups

- India is **third world country** but India is becoming the **third-largest economic power of the world**.
- 21st Century-Knowledge Revolution in which India is going to play a major role in the comity of Nations
- "We no longer discuss the future of India. We say the future is India". India in the 21st century has some unique challenges and Business opportunities to become a Super Power.
- FDI coming to India and opening up new sectors and generating various employment opportunities
- India is moving from agrarian base to service base
- The future of India is bright but there are challenges of over population, poverty, food, health, education, employment, urbanization, resources and constant risk of religious violence
- Recent initiatives like Make in India, Made in India, Standup up India, Digital India, Skill India etc., have lot of Impact on Indian Business and Startups

What is Startup?

- Starting a new business involves a number of criteria's, one such criterion is knowing the correct procedure and laws relating to startups in India.
- As per new legal norms, a business entity is identified as a startup for up to five years from the date of its incorporation which needs to meet following criteria set by Department of Industrial Policy & Promotion (DIPP) to access government benefits:
 1. Its turnover should not exceed Rs. 25 Cr in the last five financial years
 2. Its headquarters should be located in India
 3. It must work towards innovation, development, deployment and commercialization of new products, processes, or services driven by technology or intellectual property.

Why Startup India?

- The objective of this initiative is to make India a nation of 'Job creators' instead of being a nation of 'Job seekers'. Fostering a fruitful culture of innovation in the country is a long and important journey which India has taken up to make itself a hub of innovation, design and startup.
- The 19-point Action Plan, organized by the Department of Industrial Policy & Promotion (DIPP), focuses both on restricting hindrances and promoting faster growth by way of:
 - • Simplification and Handholding
 - • Funding Support and Incentives
 - • Industry-Academia Partnership and Incubation

▮ To Boost up/ promote Startup/ Entrepreneurship, To Boost up Banking Sector/ Finance, To Limit State Policy Dependency for New Businesses, To promote ST/SC – Women Entrepreneurship, Core objective is to generate maximum Employment, Encourage the people who have the potential to innovate and start their own business.
- Problems faced by Startups: Planning • Execution • Customer acquisition & retention • Fundraising • Human Resources

Startup Ecosystem Government

- Prime Minister Narendra Modi with Finance Minister Arun Jaitley and Commerce and Industry Minister Nirmala Sitharaman launching the “Startup India” action plan at Vigyan Bhawan in New Delhi on Saturday (16 JAN 2016). LAUNCHING:-
- Prime Minister Narendra Modi has kicked off the ambitious Startup India Movement.
- The government programme aims to fill gaps in the economy for the growth and development of startups and will aim to boost digital entrepreneurship at the grassroots.
- The government is expected to earmark around Rs 2,000 crore for the initiative.

Objectives of Startup Initiatives

- Objective is to reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance cost low.
- θ Regulatory formalities requiring compliance with various labour and environment laws are time consuming and difficult in nature. Often, new and small firms are unaware of nuances of the issues and can be subjected to intrusive action by regulatory agencies.
- θ In order to make compliance for Startups friendly and flexible, simplifications are required in the regulatory regime.
- θ Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and environment laws.
- θ In case of the labour laws, no inspections will be conducted for a period of 3 years.
- θ In case of environment laws, only random checks would be carried out.

Simplifying the startup process

- A startup will be able to set up by just filling up a short form through a mobile app and online portal. mobile app launched through which startups can be registered in a day.
- There will also be a portal for clearances, approvals and registrations. Towards these efforts, the Government shall introduce a Mobile App to provide on-the-go accessibility for:
- Registering Startups with relevant agencies of the Government. A simple form shall be made available for the same. The Mobile App shall have backend integration with Ministry of Corporate Affairs and Registrar of Firms for seamless information exchange and processing of the registration application.
- Tracking the status of the registration application and anytime downloading of the registration certificate. A digital version of the final registration certificate shall be made available for downloading through the Mobile App.
- Filing for compliances and obtaining information on various clearances/ approvals/ registrations Required.

Creation of a corpus of Rs 10,000 crore

- In order to provide funding support to startups, the government will set up a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over four years.
- The fund would be managed by private professionals drawn from the industry while LIC will be a co-investor in the fund.
- The Fund of Funds shall contribute to a maximum of 50% of the stated daughter fund size. In order to be able to receive the contribution, the daughter fund should have already raised the balance 50% or more of the stated fund size as the case maybe.
- Credit Guarantee Fund A National Credit Guarantee Trust Company is being envisaged with a budgetary allocation of Rs 500 crore per year for the next four years.
- Exemption from Capital Gains Tax Currently, investments by venture capital funds in startups are exempt from this law. Now, the same is being extended to investments made by incubators in startups.

Business Reform Action Plan 2017

- The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, in partnership with the World Bank Group, released the Business Reform Action Plan (BRAP) 2017 for implementation by States and Union Territories.
- The Plan included 405 recommendations for reforms on regulatory processes, policies, practices and procedures spread across 12 reform areas, including environmental registration enablers and single window system
- Gujarat proved to be one of the best performers when it came to implementation of these practices, especially in the area of environmental regulations.
- The Telangana State Industrial Project Approval and Self-Certification System (TS-IPASS) Act, 2014 was enacted by the Telangana government under the Business Reform Action Plan under which not only where the online approval and self-certification system were developed.
- The online system also aims for transparency, more accountability and faster approvals.

Incorporation and Establishment of Company

- Laws such as the Indian Companies Act, 2013 (read with relevant provisions of Indian Companies Act, 1956),
- Partnership Act, 1932 and the Limited Liability Partnership Act, 2008 provide a legal framework of commencing a business through various structures.
- Further the said laws also lay down the regulations and the rules that have to be adhered to by the incorporated entities to conduct their business.
- One of the key features to conduct business in accordance with law is to operate within the framework of regulations laid under aforesaid laws.

Steps To Be Followed For the Incorporation of New Company in India

- The Companies Act, 2013 lay down the rule for the incorporation of both Public and Private Companies under Chapter-II of the act along with the [Rules] of the Companies (Incorporation) Rules, 2014.
- A company to be incorporated as a **Private Company** must have a **minimum paid-up capital of Rs. 1, 00,000**, and **minimum number of members required to form a private company is 2 or more members**.
- For **Public Company** it must have a **minimum paid-up capital of Rs. 5, 00,000** and requires at least **7 or more members**.

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Steps To Be Followed for the Incorporation

- **STEP-1: Select Name of Person** - Under **Section-149(1) (a) of Companies Act, 2013**. Select the name of directors i.e. who will be directors (At least Three Name for Public Company and Two for Private Company) [Rule-17] (The Companies (Incorporation) Rules, 2014).
- **STEP-2: Apply for Digital Signature Certificate (DSC)**, DSC is the digital equivalent (i.e. electronic format) of physical or paper certificates., to access information or services on the Internet or to sign certain documents digitally. One can get DSC registered by signing MCA-21 E-forms digitally. A licensed Certifying Authority (CA) issues the digital signature.
- **STEP-3: Apply for Director Identification Number (DIN)**: It is a unique identification number allotted to the existing director of the company or intending to be appointment as director of a company according to **Section-152(3), Section-153 & Section-154 of the Companies Act, 2013**.
- **STEP 4: Filing the Proposed Name of Company for Approval to the Registrar of Companies (ROC)**- According to Section-4(4) of The Companies Act, 2013 person can make an application to propose the name of the company to be registered with such forms and manner accompanied by fees of Rs. 1,000/- to be paid, as may be prescribed, to the Registrar for the reservation of a name set out in the application.
- **STEP-5: Drafting of Memorandum of Association (MoA)** – The MoA is the Constitution of the Company which must contain all the fundamental information of the Company. MoA define the relationship of the Company with its shareholder.

Steps To Be Followed For the Incorporation

- **STEP-6:** Drafting of Articles of Association (AoA)- AoA which is an important document explains the operation of the company, purpose for which Company is incorporated along with the information for the process of Appointment of Directors and also management of the financial Record of the company.
- **STEP-7:** Application for Incorporation of Company- According to Section-7 of The Companies Act, 2013 shall be filed with the registrar within whose jurisdiction the registered office of a company is proposed to be situated. [Rule No.-12] of Companies (Incorporation) Rules
- **STEP-8:** Commencement of Business - According to S.11 of the Companies Act, 2013. – Company having a share capital shall not commence any business or exercise any borrowing power unless- Director should file Declaration with Registrar in Form No. INC.21 [Rule 24] in such a manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him and the paid up capital is not less than 5 Lakh Rupees in case of Public Company and not less than One Lakh in case of Private Company.
- **STEP-9:** Registered Office - Section-12 of The Companies Act, 2013 that the company on and from the 15 days of its incorporation and at all times thereafter, have a registered office capable of receiving and acknowledging all communications and notices as may be addressed to it and company shall furnish to the registrar verification of its registered office within a period of 30 days of its incorporation in such manner as may be prescribed.

Labour Policies:

A sound labor policy would facilitate removal of inequalities in profit sharing and wealth distribution.

- Laws that are exempted from application to Start-ups

- oThe Building and Other Constructions Workers' (Regulation of Employment & Conditions of Service) Act, 1996

- oThe Inter-State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979

- oThe Payment of Gratuity Act, 1972

- oThe Contract Labour (Regulation and Abolition) Act, 1970

- oThe Employees' Provident Funds and Miscellaneous Provisions Act, 1952

In furtherance of insuring a good labor police, laws such as the Factories Act 1948, the Industrial Disputes Act, 1947, the Minimum Wages Act, 1948, the Employees State Insurance Act, 1948 etc have been enacted to protect the interest of the labors.

RBI Regulations:

- The following regulatory changes for easing the cross-border transactions, particularly relating to the operations of the start-up enterprises are made.
- i. Enabling start-up enterprises, irrespective of the sector in which they are engaged, to receive foreign venture capital investment and also explicitly enabling transfer of shares from Foreign Venture Capital Investors to other residents or non-residents;
- ii. Permitting, in case of transfer of ownership of a start-up enterprises, receipt of the consideration amount on a deferred basis as also enabling escrow arrangement or indemnity arrangement up to a period of 18 months;
- iii. Enabling online submission of A2 forms for outward remittances on the basis of the form alone or with document(s) upload/submission, depending on the nature of remittance; and
- iv. Simplifying the process for dealing with delayed reporting of Foreign Direct Investment (FDI) related transaction by building a penalty structure into the regulations itself.

Free and Fair competition/ Protectionist regime:

- Free and fair market can be established only by regulation of law and not otherwise.
- To uphold and implement this principal, laws such as the Competition Act, 2002, the laws protecting IPRs (Patents, Copyrights, Trade Mark), Consumer Protection Act, 1986, Real Estate (Regulation and Development) Act, 2016 etc have been enacted and put to force to curb unhealthy trade practices that would hamper free and fair trade.

Scheme of rehabilitation and Revival

- Mere regulation of business would not suffice to foster the growth of trade, unless a scheme is provided to secure and revive a sinking company which strictly operates within the work of law.
- To further this need, organizations such as Board of Industrial and Financial Reconstruction and laws such as Micro, Small and Medium Establishments Act, 2006 and Sick Industrial Companies Act, 1985 have been enacted to give an opportunity to Companies alternative solutions to revive itself.

Dispute Resolution:

- To ensure efficient bargain there is a need for creating an effective dispute settlement mechanism to resolve all disputes arising between companies doing business in India.
- The Companies Act, 2013 has simplified the appellate procedure, by limiting the number of appellate authorities to two. An aggrieved person against the order of NCLT may appeal to appellate tribunal i.e., NCLAT and all appeals from the NCLAT shall be directly filed with the Supreme Court against any question of law.
- A sound judicial setup has been created in form of Courts (Judicial & Quasi Judicial) to resolve issues arising out of trade. Acts such as Arbitration and Conciliation Act, 1996 which was enacted during the liberalized phase of Indian economy, played an important role by providing expeditious alternate dispute resolution mechanism to resolve all trade disputes.

Environmental Regulatory Compliances Required for Start-ups

- Application of Environmental Laws to Start-ups
- Solid Waste Management Laws
- Green Licenses
- License in case of operating hazardous substances
- Exemptions
- The Water (Prevention & Control of Pollution) Act, 1974
- The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003
- The Air (Prevention & Control of Pollution) Act, 1981

Environmental Clearances and Startups

- Under the Start-up India Action Plan, compliance norms relating to environmental laws have been eased to reduce the regulatory burden on start-ups so that they can focus on their core business and keep compliance costs low. The industries falling under ‘White’ category, as categorized by the Ministry of Environment and Forests (MoEF) will now be able to self-certify compliance under three major environment acts:
- Procedures to be followed
- The industries/projects categorized as Red, Orange and Green have been covered under Consent Management for obtaining prior Consent to Establish (CTE) and Consent to Operate (CTO) under Water Act, 1974 and Air Act, 1981. The validity of period of Consent to Operate for industrial sectors/projects under the Water Act, 1974 and Air Act, 1981, are different for each category: 5 years for Red Category, 10 years for Orange Category and 15 years for Green Category

Tax exemption for startups

- Income tax exemption to startups announced for three years.
- Innovation is the essence of every Startup.
- Young minds kindle new ideas every day to think beyond conventional strategies of the existing corporate world.
- During the initial years, budding entrepreneurs struggle to evaluate the feasibility of their business idea. Significant capital investment is made in embracing ever-changing technology, fighting rising competition and navigating through the unique challenges arising from their venture.
- With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years.
- This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations.
- The exemption shall be available subject to non- distribution of dividend by the Startup.

GST and Aviation Startups

- India adopted a new financial regime of ‘One Nation, One Tax’ through the Goods and Services Tax on July 1, 2017.
- This comprehensive tax replaced most indirect taxes at the state and central levels such as sales tax, value added tax (VAT), service tax and central excise tax. However, the basic customs duty levied on imports still remains.
- The GST regime is a ‘Dual GST’ levied by the Central and State governments. The Central GST (CGST) is levied by the Centre on inter-state supply of goods and services while the State GST (SGST) is levied by each state on the intra state supply of goods and services.
- The Integrated GST (IGST), though levied by the central government on the inter-state supply of goods and services, is distributed between the Centre and the destination State.
- These are governed by 4 legislations namely the CGST Act 2017, IGST Act 2017, GST (Compensation to States) Act 2017 and the Union Territory GST Act 2017 (UTGST Act). SGST is governed by legislations passed by respective state governments

GST and Startups

- Under the GST regime which has introduced state-level tax structures, there are complications going to arise for the start-ups operating in the aviation sector. Moreover, the decision to keep aviation turbine fuel from the GST regime will further add confusion to the present regime, thereby increasing costs for the start-ups operating in the aviation sector.
- **Common registration::** The other feature of the GST is that it offers common registration. Unlike earlier, wherein the start-ups had to register at multiple levels for various taxes or different states. Under the present GST regime, Startups need to register only once on GST system and they can do business in any part of India with no problem.
- the government has exempted GST on import of aircrafts, aircraft engines and other aircraft parts since they were facing a dual levy on leasing with 5% IGST at the time of import and another 5% GST on services at the time of payment of lease rental.
- However, it is inexplicable why the large part of aviation sector would be governed by the earlier service tax regime as it is only causing much more confusion.

Protection of Intellectual Property in Startups

- Every startup has IP Rights, which it needs to understand and protect for excelling in its business.
- Every startup uses trade name, brand, logo, advertisements, inventions, designs, products, or a website, in which it possesses valuable IP Rights.
- While starting any venture, the startup also needs to confirm that it is not in violation of the IP Rights of any other person to save itself from unwarranted litigation or legal action which can thwart its business activities.
- Further, startup ventures should be proactive in developing and protecting their intellectual property for many reasons like improving the valuation of its business, to generate better goodwill, to protect its competitive advantage, to use intellectual property as a marketing edge and to use the IP Rights as a potential revenue stream through licensing.

Protection of Intellectual Property in Startups

- The IP Rights usually give the creator an exclusive right over the use of his/her creation for a certain period of time. With the rapid increase in the globalization and opening up of the new vistas in India, the "Intellectual Capital" has become one of the key wealth drivers in the present era
- IP Rights protect several aspects of a business and each type of IP Right carries its own advantages.
- The scope of IP Rights is very wide, but the prime areas of intellectual property which are of utmost importance for any startup venture are as follows:
 - • Trademarks
 - • Patents
 - • Copyrights and Related Rights
 - • Industrial Designs
 - • Trade Secrets

Why Aviation Startups?

- Civil aviation industry in India is experiencing a new era of expansion driven by factors such as low cost carriers, modern airports, foreign direct investments in domestic airlines, cutting edge information technology interventions and growing emphasis on regional connectivity. India is the 9th largest aviation market in the world with a size of around US\$ 16 billion and is poised to be the 3rd biggest by 2020.
- India aviation industry promises huge growth potential due to large and growing middle class population, rapid economic growth, higher disposable incomes, rising aspirations of the middle class and overall low penetration levels.
- The growing aircraft fleet size, strategic location advantage, rich pool of engineering expertise, and lower labour costs have huge potential to be a global MRO hub.

Why Aviation Startups? Cont..

- The various segments in the aerospace industry, including civil and military aviation and space, are showing a significant level of growth. The factors driving growth in the manufacturing sector of the aerospace industry include both macro and micro factors that provide attractive fiscal benefits for developers and manufacturers:
 - a. growing domestic aircraft demand,
 - b. liberalization of civil aviation policies,
 - c. offset requirements,
 - d. a strong domestic manufacturing base,
 - e. cost advantages, talent pool, and
 - f. a liberal Special Economic Zones law,
 - g. globalization of Maintenance, Repair and Overhaul (MRO) services,
 - h. manpower cost competitiveness,
 - i. availability of talent,
 - j. locational advantages,
 - k. use of technologies such as increased use of composites, modern engine technology, all weather capabilities, etc.

Aviation Business Startups

- Aviation business is strongly dependent on the general economy.
- Business Opportunities in Aviation Industry including India is poised to experience a rapid upswing in the business aviation sector due to its strategic geographic location, favourable demographics and robust economic growth.
- The projected future growth of aviation in India has been driven by the strong economic growth which witnessed in the last five years.
- Air travel was once considered a luxury for both business and private needs.
- This perception has now changed as savings in travel time, comfort and convenience and higher reliability compared to other modes of travel.
- The poor connectivity between the metros and smaller cities is why more and more passengers are gradually branching out to use private jets and helicopters.
- The business avenues in civil aviation are vast and diverse and given the increasing human dependency on civil aviation, it has become a very crucial aspect of the economic development of any country and Indian is no exception in this trend.
- The country has witnessed a significant growth in the number of non-scheduled airline operators with the total number of operators having crossed 400 in 2018 from a mere 36 in 2000

Different kinds of Business models in Aviation Sector

- It is important to explore and understand the full range of options available to an entrepreneur.
- The choice of legal structure in India can either be a for-profit entity (i.e. a sole proprietorship or a company or a partnership firm or a limited liability partnership etc.)
- or not-for-profit entity (i.e. a society or a trust or a company registered under Section 25 of the Indian Companies Act, 1956/2013 etc.)
- or even a hybrid structure (i.e. affiliate for-profit and not-forprofit entities functioning together as a cohesive business unit).
- General Business Model:
- Partnership, Company (Public, Private and Joint Venture), LLP
- Business Models in Aviation Sector:
- Government Owned and Operated, PPP (Public-Private Partnership), Partial/Full Privatization Model, PPI (Public Private Investor) Peoples Airport

Indian Aviation Regulations from 1950s to 1990s

- Aviation industry in India has a chequered history. Pre-1953 aviation Industry was in the private hands.
- Aviation was not developed and air routes were not profitable and companies were in loss
- In 1953 the aviation industry was nationalized through Air Corporation Act, 1953. Therefor the preamble of the Act stats “ better provisions for the operation of air transport services by the establishment of air corporations in the public sector
- From 1953 to 1980’s, the aviation industry was completely dominated/by the public sector both in airlines and airport sectors.
- However the Liberalisation, Privatisation, Globalization (LPG) process happened all over the world and India is not an exception
- Liberalisation Process in Aviation sector in India started in mid-1980’s through open sky policy first in cargo and later in passenger sector. In the process many airlines started their operations from early 1990’s.

Civil Aviation and its Legal Frame work in India

- General: Constitution of India, Article 246- Union list- state list and Concurrent list, Schedule VII- item 29,30
- Specific Acts on Civil Aviation:
- Aircraft Act, 1934 & Aircraft Rules, 1937 --Governs Regulation of Aircrafts
- Airport Authority Act, 1994 ---Regulation of Airports
- Airports Economic Regulatory Authority of India Act, 2008 -- Tariffs & Disputes between Airport Service Providers
- Suppression of Unlawful Acts Against Safety of Civil Aviation Act, 1982-- Defines Offences in Relation to Civil Aviation
- Anti Hijacking Act, 2016 --Provides for Penalties against Hijacking
- Carriage by Air Act, 1972 --Defines Liability of Airlines in Case of Damage or Injury
- Other National Regulations including : Directorate General of Civil Aviation (DGCA) --Regulates Safety & Operations of Aircrafts, Bureau of Civil Aviation Security (BCAS)--Regulates airport and airline security standards CAR, AIS, Circulars

Ministry of Civil Aviation (MoCA)

- The MoCA is responsible for formulating national policies and programs that help develop and regulate the Indian civil aviation sector.
- It administers the Aircraft Act and Rules, and various other aviation related legislations.
- The MoCA also exercises administrative control over entities like the Directorate General of Civil Aviation (“**DGCA**”) and the Airports Authority of India (“**AAI**”), and has the authority to enter into Bilateral Airline Service Agreements with other countries.
- Till date, the MCA has issued several policies including
- the Policy on Regional and Remote Area Air Connectivity,
- Policy Guidelines of Air Freight Stations,
- Policy for Training of Officers under IATA Training
- Programs, and Policy on Airport Infrastructure, 2011.
- Most recently, the MCA has released a comprehensive
- National Civil Aviation Policy, 2016.

Directorate General of Civil Aviation (DGCA)

- Although the ministry of civil aviation is the apex body, it is the office of the directorate general of civil aviation which is most important in the regulatory structure of civil aviation in India. The directorate general of civil aviation is responsible for:
- regulation of air transport services to/from/within India; registration of civil aircraft;
- formulation of standards and grant of certificate of air worthiness for civil aircraft registered;
- licensing of pilots, aircraft maintenance engineers and flight engineers;
- licensing of aerodromes in India;
- investigation into air accidents and incidents;
- rendering advice on matters relating to air transport;
- processing of aviation legislation;
- supervision of training activities of the flying / gliding clubs in India;
- development of light aircraft, gliders and wenchers and
- type certification of aircraft.
- It also coordinates all regulatory functions with International Civil Aviation Organization and is in charge of the implementation of bilateral air service agreements with foreign countries.

Powers of the DGCA

- Aircraft Act 1934 and aircraft Rules 1937
- Section 4- Rules to implement the convention 1944- including annex thereto relating to SARPS
- Section 5- to make rule regarding use, operation etc of A/c , licensing, aerodrome, , air routes tariff w.r.t AAI aerodromes
- Over all control of civil aviation in India
- Power to issue directions
- Power to Issue CAR
- Power make specifications
- Power to Issue licenses- persons, aircrafts, aerodromes,
- Power to approve schedules
- Power to issue investigate Accidents and incidents

Directorates in DGCA

- Administration Directorate.
- Aerodrome Standards Directorate.
- Air Safety Directorate.
- Air Transport Directorate.
- Airworthiness Directorate.
- Flight Standard Directorate.
- Information & Regulation Directorate.
- Aircraft Engineering Directorate.
- Directorate Of Flight Crew Licensing.
- Training Section.
- D.G. Section and Medical Section

Bureau of Civil Aviation Security (BCAS)

- The BCAS was initially set up as a Cell in the DGCA in January 1978 on the recommendation of the Pande Committee constituted in the wake of the hijacking of the Indian Airlines flight on 10th September, 1976.
- **Functions of BCAS**
- Laying down Aviation Security Standards in accordance with Annex 17 to Chicago Convention of ICAO for airport operators, airlines operators, and their security agencies responsible for implementing AVSEC measures.
- Monitoring the implementation of security rules and regulations and carrying out survey of security needs.
- Ensure that the persons implementing security controls are appropriately trained and possess all competencies required to perform their duties.
- Planning and coordination of Aviation security matters.
- Conducting –
- Surprise/Dummy checks to test professional efficiency and alertness of security staff.
- Mock exercise to test efficacy of Contingency Plans and operational preparedness of the various agencies

National Civil Aviation Policy, 2016 (NCAP- 2016)

- The first version of the civil aviation policy was released in November 2014, but was vehemently opposed to by the industry which prevented its implementation.
- After revamping the original policy based on stakeholder suggestions, the Government released the NCAP, 2016 which focuses on to creating safe, secure, affordable and sustainable air travel that can be accessed by the masses across India.⁴⁸ A few of the key changes implemented by the NCAP 2016 are outlined below:
 - A. Regional Connectivity
 - The NCAP 2016 introduces a new Regional Connectivity Scheme (“RCS”) which is to come into effect in the second quarter of 2016-2017. Under the RCS, the MCA targets an estimate airfare of INR 2,500 per passenger for flights travelling on RCS specified routes for a distance of approximately 500kms – 600kms.

A. Regional Connectivity Cont..

- This reduced airfare is intended to be achieved through a revival of un/served airports / routes and the development of new No-Frills Airports (*costing INR 50 – 100 crore each*) through the combined contribution of both Central and State Governments.
- These airports may also be developed through a public private partnership with State Governments. Specifically, State Governments will (*for a period of 10 years*):
 - a. reduce VAT on Aviation Turbine Fuel at RCS airports to 1% or less; and b. provide land, multi-modal hinterland (road rail, metro etc) connectivity, and police / fire services free of cost and as required;
- The Central Government shall also provide (*for a period of 10 years*) that: no airport charges be levied for operations under RCS; Landing, Parking and Terminal Navigation Landing charges be waived; Route Navigation and Facilitation charges be levied on a nominal basis ; service tax on tickets be levied on 10% of the taxable value ; airlines be permitted to operate ground handling services themselves at all RCS airports and airlines operating under the RCS be permitted to enter into code sharing agreements

B. 5/20 Requirement for International Operations

- Since October of 2004 Indian airline operators have been permitted to fly international routes only if they have been flying domestic routes for 5 years and have a fleet of 20 aircrafts (*the “5/20 Rule”*).
- The issue of whether to keep the 5/20 rule has been a hotly debated topic with new / small airline operators arguing for a more level playing field.
- The Government has addressed the issue in the NCAP 2016 by allowing all domestic airline operators to fly international routes provided that they deploy 20 aircrafts or 20% of their total capacity (*determined in terms of average number of seats on all departures*), whichever is higher for domestic operations.

C. Maintenance, Repair and Overhaul (MRO)

- The Indian Maintenance, Repair and Overhaul (“**MRO**”) sector is slowly gaining momentum which is highlighted by the fact that India currently has several MRO service providers like Air Works India Engineering, Max MRO Services, Horizon Aircraft Maintenance, and Aman Aviation & Aerospace Solutions which have earned European Aviation Safety Agency (“**EASA**”) approval. However, approximately 90% of the total MRO business of Indian carriers is still spent outside India in countries like Sri Lanka, Singapore, Malaysia, and the UAE.⁴⁹ Based on India’s technology and skill base, the Government is taking active steps to promote the use of domestic MRO services by carriers across Asia.⁵⁰ To this extent, the NCAP 2016 provides that:
 - a. foreign MRO experts will be provided visas promptly;
 - b. foreign pilots operating an aircraft to and from India for the purpose of servicing at an Indian MRO entity will be issued Temporary Landing Permits, subject to conditions;
 - c. Airport Entry Passes for MROs will be need based and not restricted if required conditions are met;
 - d. the MCA will try to ensure that State Governments notify MRO activities as ‘zero-rated’; e. adequate land for MRO service providers will be made in all future airport/heliport projects, where possible; and f. airport royalty and additional charges will not be levied on MRO service providers for a period of five years.

D. Ground Handling

- Ground Handling Services (“GHS”) in India include services such as aircraft cleaning, cargo handling, transport services, ground support equipment, servicing/maintenance, and security.
- The NCAP 2016 provides that all domestic scheduled operators will be permitted to carry out self-handling at all airports by engaging either their own subsidiary or a third party ground handling service provider like Air India, Aviaxpert, Celebi/NAS etc. Foreign airlines continue to be prohibited from self-handling such services.
- Further, airport operators are obligated to ensure that at least three ground handling service providers are available at all major airports to ensure fair competition.
- By permitting domestic scheduled airline operators to engage non-AAI ground handling service providers, the Government has dramatically transformed the MRO sector and has opened a significantly larger market opportunity for third party providers. With air traffic in India projected to triple over the next decade CAPA expects to see India become a USD1 billion ground handling market by 2023

Aviation Startups and UAVs

- UAV operations have outpaced the law in that they are not sufficiently supported by a dedicated and enforceable regime of rules, regulations, and standards respecting their integration into the national airspace.
- With this technological frame of reference in mind, how, and under what rules, can these systems be operated in national and international airspace? This question is of considerable importance to scientists and researchers who wish to use this technology for civilian and commercial usages.
- This question is also of great importance to law enforcement agencies patrolling the borders or responding to situations where UAVs could save lives or prevent crimes such as piracy on the high seas or drug smuggling and trade in human cargo.
- Due to the lack of regulations, there are many questions pending, pertaining to complex questions such as their airworthiness certification, personnel licensing, classification, registration, collision avoidance, traffic management, communication protocols, security issues, environmental protection, legal responsibility, insurance etc

UAVs and Legal Issues

- UAVs are becoming popular in the recent past. As the technology is becoming cheaper, more organizations are using the same, both for civilian as well as for military purposes.
- The absence of a distinctive body of rules and regulations integrating UAV flight into the national airspace, coupled with an existing time-consuming certification process for UAV flight in the first place, is an impediment and constraint for present and future UAV development.
- Some organizations like American Civil Liberties Union (ACLU) are proposing that it should be made mandatory before deploying UAV, to obtain a warrant, if it is essential to intrude the privacy of a citizen etc.
- There are fears in certain sections of society, that UAVs may trample privacy rights of citizens if they are not properly regulated. Other issues like Liability, IPRs. Airworthiness and son.

India and UAVs

- New policies, procedures and approval processes.
- To define operational and certification requirements.
- There is an urgent need to put in place privacy laws in the country to facilitate orderly growth of the UAVs. The widespread use of UAVs by the law enforcement agencies and other organizations, has a potential of endangering the rights of citizens.
- Coordinated approach among various stakeholders required.
- Regulation is essential for healthy and sustainable commercial growth of this emerging sector in Aerospace Industry.
- In India we need UAV Policy, legislation that includes airworthiness, Certification, remote piloting of UAV, liability regime, Compliance issues etc.

DGCA and UAVs

- The Indian draft guidelines, issued in April 2016 by the DGCA, also deal with these issues. As per the guidelines, UAVs have been categorized by weight into four classes: micro, which is up to 2 kilos; mini, exceeding 2 kilos but less than 20; small, exceeding 20 kilos and less than 150; and large, exceeding 150.
- All UAVs require a Unique Identification Number (UIN) issued by the DGCA. A UIN can be granted only to a citizen of India or to a company that is incorporated and has its principal place of business in India, with substantial control vested in Indian nationals.
- The UIN is a positive security measure with which any UAV operating in India can be tracked and identified. However, permitting primarily only Indian nationals to obtain a UIN would impede economic growth and technological progress.
- DGCA must also identify specific offenses within the licensing framework for UAVs and specify punishments for the same.
- While regulations are necessary to monitor the UAS to ensure security and safety, DGCA should not intervene to such an extent that it becomes virtually impossible to commercially use the device.

Positive Environment of Aviation Startups

- The proposal to replace the DGCA with a new regulator – the Civil Aviation Authority – with financial autonomy and power to address issues relating to consumer protection and environment regulations.
- The government's proposed construction of 17 highways-cum-airstrips; 18 greenfield airports; reviving 50 unserved and under-served airstrips in the next few years; starting a new regional connectivity scheme; and reviving an air services agreement with countries an agreement already having been concluded with the Netherlands to operate up to 28 flights each week).
- The Executive Devel. Programme of Rajiv Gandhi National Aviation University in collaboration with the US–India Cooperation Program to promote skills development for the senior leadership and close the gap of increasing demand for trained people in the aviation sector.
- The Requirements for the Operation of Civil Remotely Piloted Aircraft Systems, 2017, issued by the DGCA.

Positive Environment of Aviation Startups

- The MRO industry in India is likely to expand and gain expertise in the likeliness of a fully fledged MRO venture hosted by Thailand. The venture is favoured owing to the fast-growing commercial aviation market in India.
- Government has planned to enter into an ‘Open Sky’ Air Service Agreement as per National Civil Aviation Policy 2016, on a reciprocal basis with SAARC countries and countries with territory located entirely beyond a 5,000km radius from New Delhi.
- The taxes levied on the ATF be brought within the purview of GST, which will attract input tax credit enabling airlines to pass down the cost fully to passengers.
- In 2014, the DGCA issued a public notice enlisting several approvals required for civil application of an unmanned aircraft vehicle; followed by draft guidelines issued in 2016 and 2017.
- Although the drafts were not given effect, it largely announced the Government’s intention to permit the use of UAV’s for civilian purposes in the future.
- On August 27, 2018, the National Drone Policy has legalised the use of drones in India to be effective from December 1, 2018.

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