

Parliament Passes Aircraft Protection Bill, 2025: A Step in the Right Direction

On April 1, 2025, the Rajya Sabha (the upper house of the Indian Parliament) passed the much-anticipated Protection and Enforcement of Interests in Aircraft Objects Bill, 2025 (**"the Bill"**). Subsequently, on April 3, 2025, the Lok Sabha (the lower house) also approved the Bill. With both houses' endorsement, the Bill now awaits the President's assent. This landmark legislation seeks to align the Indian aviation law with the international aviation market norms by giving the force of law to the Convention on International Interests in Mobile Equipment and the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment (collectively known as the Cape Town Convention and Protocol). Given India's dualist legal framework, mere accession to the Cape Town Convention and Protocol in 2008 was insufficient to render their provisions enforceable under domestic law. Accordingly, this Bill bridges the gap by providing the necessary legislative backing, aligning India's aviation sector with international standards on aircraft financing and asset recovery.

Key Objectives and Scope

The primary objective of the Bill is to streamline and strengthen the legal regime governing high-value aviation assets, such as aircraft, helicopters, and engines. It sets out clear provisions on the creation, registration, and priority of "international interests" in aircraft objects, ensuring creditors and lessors can effectively protect their rights. By explicitly overriding conflicting domestic laws in defined circumstances, the Bill provides uniformity in aircraft financing transactions, filling longstanding gaps between Indian statutes (such as the Insolvency and Bankruptcy Code, 2016) and the Cape Town Convention's requirements.

Default and Remedies

A central feature is the Bill's delineation of remedies for creditors in cases of debtor default. For instance, creditors may take possession or control of the aircraft object, sell or lease it, or collect income derived from its management or use, subject to certain procedural requirements and notice periods. The Bill also facilitates expedited deregistration and export of aircraft upon a default, a significant provision aimed at minimizing disputes and uncertainties that lessors previously faced in Indian courts.

Impact on Insolvency Proceedings

Historically, repossession and deregistration of aircraft during insolvency proceedings have been complex, sometimes requiring protracted litigation. The Bill codifies how "international interests" are treated in an insolvency scenario, mandating timelines for surrender of aircraft by an insolvent debtor or its insolvency administrator. By harmonizing these rules with global standards, India signals a more creditor-friendly environment, potentially reducing financing costs for domestic airlines. Emphasizing this, the Civil Aviation Minister Shri Ram Mohan Naidu stated:

"Upon the enactment of this legislation, we improve India's compliance score in the AWG's (Aviation Working Group) outlook, making Indian airlines eligible for CTC (Cape Town Convention) discounts, which will significantly reduce

leasing costs by approximately 8 to 10 per cent. These are the costs that will trickle down to passengers and airfares as well. That is why this becomes very important for us.”

In other words, once creditors and lessors enjoy certainty in repossession during insolvency, financing risk is lowered, translating into cheaper lease rates for airlines, which, as the Hon'ble Minister pointed out, will ultimately benefit passengers through potentially lower ticket costs.

Benefits for Stakeholders

- Creditors and lessors: Reduced risk exposure, as they gain more certainty in recovering assets or securing claims, thus boosting their confidence in doing business in India.
- Airlines: Potentially lower leasing and financing costs because of improved investor and lessor confidence, which can translate into operational savings.
- Legal System: Reduced litigation over repossession disputes and enhanced global perception of India as a stable jurisdiction for aircraft financing.

Looking Ahead

The passing of this Bill is a significant step in fortifying India's position in the global aviation market. By clarifying legal uncertainties around aircraft object financing and enforcement, it promises a healthier investment climate and greater competitiveness for Indian airlines. In the long run, successful implementation will hinge on timely rulemaking by the government, effective oversight by the Directorate General of Civil Aviation, and swift judicial enforcement of creditors' rights. In conclusion, we eagerly anticipate further initiatives aimed at enhancing procedural clarity regarding the de-registration of aircraft. These efforts will help provide greater assurance and comfort to lessors, fostering a more transparent and efficient process in the aviation industry, bolstering the country's standing as an emerging hub for aircraft leasing and financing.

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