

Suggestions from ASSOCHAM

The Aviation sector in India currently contributes \$72 bn to GDP. India has 464 airports and airstrips, of which 125 airports are owned by Airport Authority of India (AAI). These 125 AAI airports manage close to 78% of domestic passenger traffic and 22% of international passenger traffic. Civil Aviation in India is the ninth largest market in the world having fastest growing air domestic market in the world.

Post successful stint of PPP model in airport sector Govt of India intended to privatize six more airports in India. Investment to the tune of Rs 42,000-45,000 crore (US\$ 6-6.5 billion) is expected in India's airport infrastructure between FY18-23. Airport plays a vital role in the overall growth of the economy accordingly in order to attract investment in the airport sector it is necessary to showcase the regulatory certainty in airport business, stabilize cash flows and available talent pipeline.

AERA in case of Delhi Airport has issued consultation paper 15/2020-21 on 9th June'2020 for stakeholder comments. We as an industry body have following observation on the consultation paper:

1. **Sovereign risk** – the sovereign risk of any country depend on the adherence of the terms of the concession by the government. In order to ensure the sanctity of the concession agreement in case of Airport sector, the AERA Act specifically provide regulator to consider the concession agreements already signed by GoI while determining tariff for any Airport. Accordingly, AERA should consider the terms of the concession in its letter and spirit. The concession for Delhi Airport provide the minimum revenue threshold in terms of BAC+10% for the airport in any year during the term of the concession. Such protection had been provided by GoI to ensure the airport sustainability and hence minimum guaranteed revenue should not been taken back by the Authority in terms of true up.
2. **Regulatory certainty** - In order to promote investment in the sector the regulator need to showcase the regulatory certainty in the sector. It has been more than a decade since the first airport privatization took place but still we could not achieve the regulatory certainty. In this regard Authority should maintain consistency in its approach like in case of DIAL, in previous control period other income had not been considered by Authority for cross subsidy however in the said consultation paper authority has used other income for cross subsidizing aeronautical entitlement. Such inconsistent approach make the investment decision unviable and dissuade investors from investing in the sector.
3. **Adequate return**- The regulator should provide adequate return on the investment made. In this regard Authority should also take in to consideration the terms of the concession as well as clarification provided at the time of bidding process. We understand that as part of bidding AAI indicated RoE of 22.86% in case of Delhi Airport which is arrived based on grossing up of 16% return on equity with 30% marginal rate of tax. The clarification provided as part of bidding plays vital role for any investor to bid the project accordingly Authority should give due consideration to bid clarification and consider 22.86% as return on equity for DIAL.

4. **Revenue from Disallowed Area-** Authority has disallowed a part of terminal area to the extent of 8652 Sqm while allowing the project cost in first control period for DIAL. Since this asset does not form part of DIAL assets as per AERA the revenue generated from such asset should also not be considered in tariff determination by the regulator. We request Authority to follow consistency approach in tariff determination.
5. **Viability of the Airport-** Airport are the backbone of the infrastructure growth of any country. Delhi Airport over the years has showcased its contribution to the economy and also brought India in the front runner in case of world class infrastructure. However, over the one decade of the operation Delhi Airport could not yield adequate return to its investor. Delhi Airport has set the high service standard worldwide however the aeronautical charges at Delhi Airport are one of the lowest in the world. In accordance with section 13 (1) (a) (iv) while determining tariff for the aeronautical service authority should take into consideration the economic and viable operation of the major airports. Considering the current financial position of DIAL there are challenges of the viable operation of the airport accordingly we request Authority to consider DIAL proposition positively and ensure viability of the Delhi Airport.

The authority must also take a long-term view on regulation. In the Indian scenario, airport supply has always lagged demand, causing severe constraints in service quality and therefore, adequate capacity planning should be seen as a welcome change. These capacity additions should be supported by adequate revenue. This will ensure that, in the long-run, Indian airports sufficiently meet the demand, which is in the interest of passengers and the aviation industry at large.