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BRITISH AIRWAYS

OSD ~~AT~~ 18/10/12

26th September 2012

British Airways Plc
Ryan Maskery
Procurement Executive
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Capt. Kapil Chaudhary
Secretary
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
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New Delhi 110003
India

DGM (R)
AGM (RK)

Sent by email to kapil.chaudhary@aera.gov.in

Actioned already. has been fwd to AAI & Deloitte for consolidation. 30/x/12

Dear Capt. Chaudhary

Following your proposals contained in consultation paper no 16/2012-13, I would like to make the following comments on behalf of British Airways:

You will be acutely aware of the challenges that continue to impact the aviation industry. There have been, and still are, a multitude of exogenous shocks impacting aviation, including the Eurozone economic crisis, delivery delays of next generation (more fuel-efficient) aircraft, and high aviation fuel prices.

These effects individually are damaging, but when combined are forecasted to cause a significant financial deterioration of the World aviation sector in 2012 and 2013. As you will have seen, many airlines are starting to reflect the impact of the above in their financial results, indeed BA's recent half-year results showed profits falling by 93.33% to a mere £12m on a turnover up 10%. There are an increasing number of airlines, including American Airlines, which are very publicly experiencing the effects of the deterioration of the aviation industry's financial health. The International Air Transport Association ("IATA") has recently stated that its members are likely to achieve an overall operating profit margin of a mere 0.5% in 2012. These are very slim margins for an industry that must reinvest in new aircraft to achieve the benefits of lower fuel burn.

The price elasticity in the Indian market is such that airlines will be unable to simply pass on these increased costs to our passengers; airlines, equally, cannot afford to absorb such a substantial and damaging increase in costs. Airlines will therefore be forced to critically re-evaluate their capacity and frequency into Chennai International Airport. BA currently operates five services per week from Chennai International Airport to London Heathrow Airport. BA is critically evaluating its longhaul network plans for Summer 2013, with a view to increasing the number of longhaul frequencies across its network following the arrival of A380 and Boeing 787 aircraft. An increase in charges of this scale is likely to damage the prospect of Chennai International Airport receiving additional BA capacity.

BA therefore requests that AERA fully considers the continuing financial challenges of its airline customers and the adverse implications of introducing a charges increase at this time, and instead commits to holding its 2013/14 charges at their current levels, thus helping to stimulate growth.

Of particular concern are:

- Landing Charges increase 118% - not just are these unjustifiable, the differential between fees for international and domestic flights is not acceptable, contravening ICAO's policy on cost-based charging and will undoubtedly have adverse implications on BA's network plans for Chennai

- Parking Charges increase of 83% - again these are unjustifiable and as mentioned above will have significant implications when evaluating BA longhaul network plans

- Introduction of a User Development Fee of Rs667 for international passengers. This would have an adverse financial impact, if implemented, on British Airways (BA) and our passengers, of almost £1m p.a. There is no justification for the large differential between domestic and international fees

- Proposal of an annual escalation of 6% effective 1st April 2013 thereafter – annual changes to tariff should consider and reflect the financial climate and Capex spend at the time of consultation so should not reflect a fixed 6% increase

- AERA is proposing pricing to recover the costs of recent investments over an unusually short period. Airports usually recover the costs of their capital investments over an extended timeframe. BA strongly encourages AERA to adopt such an approach at Chennai International Airport by setting a recovery period of at least 10 years.

- 15.46% cost of equity for a government agency is too high, particularly as the government would not have the same expectation on returns as the private sector

There are no markets that can sustain an increase in their operating costs of this scale. Airlines throughout most of the world's markets are operating in fierce competition, unlike the airports sector, which broadly enjoys the advantages of operating in a protected monopoly environment. This is why regulatory bodies, such as AERA, must act as an effective proxy for competition. By proposing increases of this scale, BA believes that AERA is not discharging this duty.

We look forward to your early intervention to help resolve this serious and potentially very damaging issue.

Yours sincerely

Ryan Maskery
Procurement Airport Charges

cc: Pankaj Mehta, VP South Asia
Steve Clark, Head of CS + OPS NA and Asia Pacific
Tony Buss, Procurement Manager Airports & ATC, BA
Peter Jukes, Manager User Charges, BA