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9 April 2010

Shri Sandeep Prakash
Secretary
Airports Economic Regulatory Authority of India
Room no. 58, B Block, Rajiv Gandhi Bhawan
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Dear Shri Prakash,

AERA CONSULTATION PAPER No. 05/2009-10

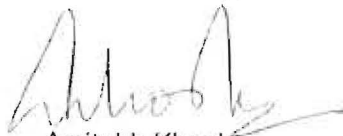
This refers to your letter D.O. No.AERA/20010/AAI-UDF/2009-10/769 of 26 March 2010 regarding the proposal of AAI to levy User Development Fee at Trivandrum International Airport. IATA welcomes the opportunity to provide comments on the matter and would like to put forth its views as follows.

- IATA agrees in principle with the concept of User Development Fee (UDF) as a means for airports to recover their capital investment in facilities used by passengers as this is aligned with its stance of 'user pays'. However, in setting UDF, serious consideration needs to be paid to two important aspects:
 - Keeping the UDF as low as possible to minimize its impact on passenger demand
 - Ensuring equal and fair treatment for all groups of passengers using the airport facilities.
- To keep UDF levels low for the benefit of passengers and the industry, conservative assumptions and principles that lead to this goal should be adopted. These include:
 - spreading the UDF over the useful life of the asset. The 10 year assumption in the proposal is too short considering that the airport terminal building and facilities typically would have a useful life of 25-30 years.
 - realistic traffic projections that do not err on the low side. In particular, for the traffic projection for international passengers and aircraft movements, the values used in the proposal are too low when compared to the CAGR over the last eight years of 13.9% and 16.5% respectively. This is especially considering that the opening of the new terminal building is likely to spur significantly stronger growth. It would be more reasonable to use traffic growth forecasts that are higher than the CAGRs for the last eight years

- use of single till. AAI's assumption of a hybrid till with 30% non-aeronautical revenue incorporated for setting UDF appears to be deliberately aligned with the arbitrary figure used in the OMDAs for Delhi and Mumbai Airports. IATA maintains that a single till approach is one that best serves the interest of the industry and agrees with AERA that the full non-aeronautical revenue should be used for determination of UDF at TRV. This is especially since the full cost for non-aeronautical assets have been included in AAI's proposal.
- Like at other airports where multiple terminal buildings exist, there should only be a single level of charge applied to all passengers. The inclusion of all assets (including existing terminal buildings) in the RAB for UDF determination recognizes that the airport functions as a single business and system. Levying UDF on international passengers only on the basis that the new terminal building is used solely by international passengers sets an unwieldy precedence. If one takes this rationale further, it means that future upgrading costs for the domestic terminal will have to be borne entirely by domestic passengers. IATA strongly believes that UDF needs to be equally applied without discrimination to domestic and international passengers.

IATA appreciates that this UDF determined for TRV is for ad hoc application and will be reviewed when the first cycle of tariff determination under the new regulatory framework kicks in. Nevertheless, it is important that the assumptions and principles used are set right so that unhealthy practices cannot be justified in future on the basis of precedence. As such, IATA urges AERA to seriously consider taking on board the views provided in this submission.

Yours sincerely,



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