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Dear Capt. Chaudhary,

CONSULTATION PAPER No. 32/2011-12

IATA welcomes the opportunity to provide its comments to Consultation Paper No. 32/2011-12 on 'Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi for the 1st Regulatory Period (01.04.2009 – 31.03.2014)'.

IATA objects in the strongest possible terms to the proposed tariff increase by AERA which despite it being a significant moderation from the higher increase proposed by Delhi International Airport Limited (DIAL), would still have a severe impact on the viability of airline operations at IGI Airport (DEL).

IATA stresses that AERA must not allow such a quantum of increase in airport tariff to be loaded on the industry. It would make DEL the most expensive in Asia, if not the world *(please see Chart 1 attached on US$ comparison).* Comparison on a Purchasing Power Parity basis *(please see Chart 2)* clearly places DEL in a category of its own and strongly drives home the point that AERA's proposed increase in airport charges would:

- put air travel out of the reach of many Indian consumers;
- jeopardize the strong traffic growth that the Indian aviation industry has been experiencing in the past decade; and

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- set back DEL's aspiration to be a major aviation hub.

One critical factor for DEL's successful transformation into an aviation hub is its ability to compete for transit traffic with the likes of Dubai, Singapore, Hong Kong and Bangkok. As such, DEL's tariffs should be comparable if not lower than the tariffs at these airports. It is also important to note that airport charges at these airports do not escalate year after year but tend to remain stable for many years. Tariffs at DEL must also demonstrate the same stability.

While the proposed increase in tariffs is meant to produce a fair rate of return for the airport, AERA must also ensure that the overall health of the industry is not adversely impacted as a result. This would necessitate AERA to look beyond the financial computations and consider all possible measures to bring the tariff increase down to a level that can be readily absorbed by the industry.

Furthermore, IATA believes that the Indian government must seriously consider reviewing the existing concession agreement between DIAL and Airports Authority of India (AAI) with the view to reduce the quantum of tariff increase by:

- changing the regulatory approach to single till; and
- channelling the unjustifiably high 46% revenue share that AAI receives from DIAL towards offsetting the airport's aeronautical costs.

Notwithstanding the above, IATA has prepared its detailed response to Consultation Paper No.32/2011-12 as attached. The salient points are summarized as follows:

- AERA's power to determine aeronautical tariffs was only granted from 1 September 2009. As such, the first regulatory cycle should not start before that date.
- The law does not disallow revenue shortfall from one regulatory period to be clawed back in the next regulatory period. As such, AERA should consider spreading the clawback equally over a seven-year period.
- DIAL's allocation of close to 90% of assets and opex to the aeronautical group is arbitrary and too high if comparison is made to the experience at European airports. IATA believes that in the absence of an objective formula, a 50:50 split to aeronautical and non-aeronautical groups would be the fairest.

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- The deposit for Metro Rail is unrelated to the creation of an aeronautical asset and should not be accepted towards aeronautical assets.

- Assets that are out of commission (e.g. Terminal 1a and Terminal 2) should not be included in the RAB.

- A cost of equity in the range of 9% to 10.3% for the period 2009-14 is fair

- Concession revenues associated with the operation of air transport services (from ITP service providers, cargo and ground handling service providers, Bridge Mounted Equipment concessionaires, and in-flight kitchens) should be regarded as aeronautical revenue and the full amounts included for calculation of overall passenger yield.

- As there is no cost basis for FTC, IATA rejects the proposal to load the cost on airlines through increasingly higher FTC and would support an initiative by the airport to progressively bring down the fee rather than raise it.

- IATA believes that AERA's traffic forecasts are realistic so long as tariff increases are moderate. The full implementation of AERA's tariff increase proposal will decrease domestic and international traffic by 5.9% and 6.5% respectively.

- IATA disagrees with the rate card proposed by DIAL as it violates ICAO policies. Specifically, landing charges and UDF should not be distance-based.

IATA hopes that AERA would take on board these comments and steer away from allowing an unsustainable tariff increase that would set a damaging precedent for the Indian aviation industry.

Thank you.

Yours sincerely,

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