

To,

Dt : 11.06.2018

The Secretary,
Airport Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjang Airport,
New Delhi 110 003

Sub : Submission of Comments on Consultation Paper No : 04 / 2018 -19 Dtd 8th May 2018

In the matter of Determination of Fair Rate of Return (FROr) to be provided on Cost of Land incurred by Various Airport Operators of India

Dear Sir,

Following issues may be taken into consideration while determining Fare Rate of Return
We would like to bring case of Kempegowda International Airport, Bengalurur on how Airport investor has missed Non Aeronautical Development on additional land provided and which is hurting Airport revenue.

We would like to highlight following issues and AERA should consider for FROr determination :

1. **Running Cost of Land** : Rental Cost / Land Taxes of Non Utilized portion of Land should not be considered if land is not been exploited after 5 Years period from the Date of Airport opening
2. **Penalty be imposed** : *AERA should stipulate the time limit within which Airport Owners like BIAL to submit Real Estate Business Plan for commercial exploitation of land so that it can be appropriately factored in determining aeronautical tariffs (including UDF) for the control period.*

Details of how BIAL Management failed to act on excess land provided by Karnataka Govt. provided here.

GoK has provided 4008 acres of Land on lease basis to KIAL 3% of Rs 175 Crore for first 7 Years. 6% for the 8th year and previous year lease rent plus 3% from 9th year onwards. From this, about 720 acres is available for such commercial activities as stated in State Support Agreement (SSA).

GoK State Support Agreement (SSA) entered with BIAL during on 30th April 2005 on land lease allows following activities :

The SSA also states that the GoK recognises that BIAL may carry out any activity or Business in connection with or related to the development of site or operation of airport to generate revenues including the development of commercial ventures such as hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme park, amusement arcades, golf courses and other sports/ entertainment facilities, banks and exchanges and shopping malls.

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During 2014 UDF consultation for KIAL airport Bengaluru, BIAL Management did not provide any details on Real Estate Development on excess Land available at Airport since 2005 : *No details are provided about usage of such land parcel. BIAL has submitted that it has yet not firmed up the Real Estate Business Plan to monetize the land in excess of Airport requirements*

BIAL comments during 2014 consultation for UDF by AERA :

It has not yet firmed up the Real Estate Business Plan with respect to monetization of the lands, hence the fair market value of the land that it wishes to commercially exploit should not be reduced from RAB.

Same time, then BIAL management had obtained SEZ approval with investment of Rs 3384.65 Crore on 112.96 hectares for SEZ at BIAL during June 2008. Detail of SEZ board comments :

Approval setting up of SEZ Board for Even SEZ Board decided to grant formal approval for setting up of a sector specific Special Economic Zone for Airport based SEZ at BIAL Airport, Devanahalli, Bangalore, Karnataka by Bangalore International Airport Ltd. over an area of 113 hectares

Total proposed investment is Rs 3384.65 Crore on 112.96 hectares for SEZ at BIAL

From the above, its very clear, BIAL Management did not take any positive imitative to develop the excess land and instead, they were busy in exchange / sell / buy the stake holding in BIAL and resolving dispute of Airport Hotel by not allocating 3 /4 acres of additional land from available 800 Acres.

BIAL's failure to market/monetize the land has defeated the intention of GOK providing excess land. Also stake holders like GoK and Gol have filed to impress BIAL management to act on utilizing additional land and same time BIAL Management kept paying rental value & statutory land taxes. Same was recovered thru UDF from Airport Passengers. This bring how AERA has agreed for these expenditure at the cost of Passenger paying.

BIAL Expenditure projection during recent consultation paper May 2018 for UDF :

BIAL has allocated 100% of lease rentals to Aeronautical expenditure

Based on the above, Lease rent considered for Control Period 2 is given below:

Particulars	2017	2018	2019	2020	2021
Lease Rent	13.0	13.4	13.8	14.2	14.7

BIAL submission during In the matter of Determination of tariffs for Aeronautical Services in respect of Kempegowda International Airport, Bengaluru, for the Second Control Period (01.04.2016 to 31.03.2021) :

BIAL has identified 462 acres of land from the total land parcel of 4,009 acres for commercial real-estate development. The land has been leased to the airport and therefore any further transfer of land for development can be on a sub-lease basis only. The land allocated for the commercial development is presently not serviced. A large investment – upwards of INR 500 crores is needed to make the land serviceable by provision of roads, power, water, IT etc. BIAL is currently constrained to allocate resources for the development of airside infrastructure given the rapid rate of increase in passenger and cargo traffic.

Conclusion :

Case of BIAL Management has failed to utilize excess land for Commercial Exploitation and further burdening Air Passenger thru UDF. Also investor like GOK and GOI are not getting any returns due to this.

From the above AERA should bring in following changes to make Airport Developer and Operator made accountable :

1. **Running Cost of Land** : Rental Cost / Land Taxes of Non Utilized portion of Land should not be considered if land is not been exploited after 5 Years period from the Date of Airport opening
2. **Penalty to be imposed** : AERA should stipulate the time limit within which Airport Owners like BIAL to submit Real Estate Business Plan for commercial exploitation of land so that it can be appropriately factored in determining aeronautical tariffs (including UDF) for the control period. If they fail to act, Airport operator should be provided negative incentive for failure to act. Percentage should be decided by AERA.

Hence AERA requested to consider the above while determining FRoR for on Cost of Land incurred by Various Airport Operators of India.

Thanking You

Yours Faithfully



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