



P.O. Box 686
Dubai, U.A.E.
Telephone: 9714 - 7084686
Facsimile: 9714 - 2864112
Email: ghickling@emirates.com

30 September 2009
RMPO/AERADELADF/303

Shri Sandeep Prakash
Secretary
Airports Economic Regulatory Authority of India
Room No. 58, B Block, Rajiv Gandhi Bhawan
Safdarjung Airport
New Delhi 110003
Email: sandeep.moca@nic.in
Phone: +91 11 24616025
Facsimile: +91 11 246 56214

Dear Shri Prakash,

Ref: DEL - Airport Development Fee

Thankyou for your invitation, to provide comments on the specific Airport Development Fee (ADF), introduced by GMR Delhi International Airport. Although I am directly responsible for Emirates Operational Costs for India, I am also a member of the IATA Airport & Air Traffic Control (ATC) Charges Working Group and the IATA India Charges Working Group. Therefore the comments provided are also on the behalf of all IATA represented International Airlines serving India. As this is the first of hopefully many submissions to assist AERA in its review of Indian airport economics, I have taken the time to provide some background and an external perception of recent developments.

Background

It is important to put the specific issue of ADF into context with developments in the Indian Civil Aviation over the past 10 years. These developments are in terms of both airlines and airports.

Airline Developments

There is no question that air links are the modern trade routes of our times. They are vital to economic growth and development. India has taken the wise and important step of liberalising the civil aviation market. This was first done with domestic airlines and more recently with increased access for International airlines. It is most unfortunate that India's liberalisation effort has occurred during the most volatile decade for civil aviation ever. From 9/11 to SARS to record oil prices to global Financial Crisis, it is difficult to imagine more difficult scenarios that individually would challenge the most professionally run airline. Coming together in quick succession has been disastrous for nearly all carriers.

Liberalisation resulted in a rush for market share by Indian domestic carriers which in turn brought a dramatic lowering of fares to unsustainable levels. The dramatic increase in passenger loads led to artificially high growth rates for civil aviation and airports. This unsustainable aviation market was soon devastated by dramatic increases in fuel prices as well as increased operational costs due to the public / private airport development projects.

THE INTERNATIONAL AIRLINE OF THE U.A.E.

Airport Developments

In parallel with the liberalisation of the airline market, India recognised that its civil aviation infrastructure lacked focussed investment and was woefully inadequate to support the record growth of Indian industry, particularly those service and export industries that rely on frequent, cost effective air links to its global markets. India's first approved modern airport project was Bangalore (BLR) followed by Hyderabad (HYD). These Greenfield termed airports, involved the complete construction of all airport infrastructure including runways, taxiways, terminal buildings, ATC towers and road infrastructure. These were followed by the privatisation of two existing airports Chhatrapati Shivaji International Airport Mumbai and Indira Gandhi International Airport Delhi. These Brownfield termed airports already had the largest share of air traffic and were already considerable contributors to subsidising other airport infrastructure throughout India. The privatisation of the Brownfield airports were covered under different terms and conditions referred to as OMDA agreements. Our understanding of the agreements is that they do impose significant and arguably unsustainable revenue sharing provisions and also contained binding increases on aeronautical charges based on project progression targets, unrelated to actual individual airport economics.

Summary

From an IATA and International Airlines perspective the recent developments in the airline market and airports in India, combined with the external impacts of high oil prices and the global financial crisis has resulted in weakened Indian carriers and overpriced airport infrastructure. Neither of which are a benefit to India in the long term. It is our view that an independent, objective economic regulator will be able to identify what steps need to be taken to ensure economic stability in civil aviation and to support longterm growth. However the challenges of cash strapped carriers and enormous pressures on airports to generate revenue will be immense.

Airport Charges, Passenger Charges (ADF) and Concession (Retail) Fees

Before specifically addressing GMR-DIAL's ADF it is important to state how we view the commercial relationship between an airport and airlines. Both airports and airlines have the same basic objective. This is to maximise the throughput of passengers and cargo through our respective, available capacity at profitable and sustainable yields. This is achieved by providing our customers value for money. Value for money is achieved by keeping costs as low as possible and providing fair competition.

Revenue at most modern airports is derived from three main streams, aeronautical charges; passenger charges and concession charges. Modern private airports are increasingly shifting revenue generation focus away from traditional aeronautical charges to retail and a per passenger based charges. This is welcomed by airlines if it means a reduction in operating costs. But they have to be done in a non-discriminatory manner. The current aeronautical charges in India are unbalanced and have in the past encouraged the use of turboprops at congested hubs. They also are a disincentive on the use of larger aircraft at peak times.

Unfortunately this discriminatory costing is now being applied to concession fees and worryingly to ADF. The huge discrepancy between International and Domestic ADF/UDF has no basis in airport infrastructure. At BLR, HYD and shortly at DEL, the facilities used by both domestic and international passengers are virtually identical. Due to liberalisation of the civil aviation market there is now no longer any significant differential between domestic airfares and those for example to and from Asia or the Gulf.

In summary, an airport revenue streams need to be viewed in their entirety and structured in a way to encourage maximum throughput and cost effective use of infrastructure. The current charges structures for Aeronautical, Passenger and Concessions are not achieving this.

DEL - GMR/DIAL

Apart from the International and Domestic ADF being discriminatory and not in compliance to ICAO, we would challenge the level of charges on the following basis:

1. OMDA Agreements

As mentioned the OMDA agreements are contributing to a needless increase in overall revenue due to the revenue sharing percentages. The revenue generated in this manner must be used for the airport's development and not used to cross subsidise other infrastructure. The pre-financing of infrastructure through ADF is unacceptable without a commitment to review and reduce operating costs.

2. Financial Performance

There is no detailed financial report provided which would be able to identify the revenue needs of the airport managed by GMR/DIAL. Full transparency is required to determine the airports financing requirements.

-58-

Secretary Prakash I thank you again for the opportunity to submit my concerns not just on the DEL ADF, but on the recent developments in India. The rush to develop airport infrastructure and liberalise the airline market in India is commendable, but now there is an urgent need to stabilise civil aviation economics and provide a low cost, equitable charges for airlines and passengers alike. Just as the old airport infrastructure and constrained airline market were not supporting India's development neither will outdated, discriminatory charges encourage use of infrastructure to its full potential.

I look forward to being part of further consultations with your authority and with airports, to contribute to the continued development of India's Civil Aviation.

Kind regards,



Guy Hickling

Regional Manager Procurement Operations

cc: Jeff Poole - IATA Director Airport & ATC Charges

THE INTERNATIONAL AIRLINE OF THE U.A.E.

— 59 —

Submission on Development Fee levied at IGI Airport

TAN Malvyn <tanjcm@iata.org>

Wednesday, September 30, 2009 5:28 pm

sandeep.moca@nic.in

KHOSLA Amitabh <khoslaa@iata.org>

Prakash,

to the consultation paper by AERA published in the Ministry of Civil Aviation's website pertaining to the review of
 Development Fee at IGI Airport, New Delhi.

I find enclosed IATA's submission on the matter for AERA's consideration. Thank you.

Regards

Tan
 Joint Director Industry Charges, Fuel & Taxation
 Pacific
 65 64992262
 +65 90309687
 65 64151201
 m@iata.org

International Air Transport Association

One Somerset
 Somerset Road, #14-05
 Singapore 238164
 iata.org

May like to see in date.

K. G. M. S.

1/10

Chairperson

Pr. 1/10/09

secy

K. G. M. S.

K. G. M. S.