



30 September 2009

Shri Sandeep Prakash,
Secretary,
Airports Economic Regulatory Authority of India,
Room No. 58, B-Block, Rajiv Gandhi Bhawan,
New Delhi 110003

Dear Shri Prakash,

Review of Development Fee levied at IGI Airport, New Delhi

The International Air Transport Association (IATA) represents some 230 airlines worldwide that make up 93% of scheduled international air traffic. On behalf of its member airlines that operate scheduled international air services to India, IATA would like to comment on the Development Fee (DF) levied at IGI Airport.

IATA's comments are as follows:

- The public-private partnership (PPP) scheme was meant to support the development of IGI Airport by tapping private sector funding. The implementation of the DF effectively renders the PPP scheme irrelevant as the travelling public ends up shouldering the burden of financing. The authorities have failed to provide clear justification why the partnership has been relieved of its financing obligations and why that would be beneficial to the industry. In the absence of clear justification, the DF should not have been approved.
- Looking at the manner in which the DF is currently structured, IATA believes that the DF actually disincentivises the airport from unlocking the commercial value of idle assets through an early development of commercial revenues. The protected revenue stream from the DF ensures that the burden of financing is shifted to the passenger and takes away any pressure on the airport to innovate.
- The global airline industry lost USD16.8 billion in 2008 and is expected to lose USD11 billion in 2009. Amidst this unprecedented industry downturn, airports should be focused on bringing down travel costs to support industry efforts to revive growth as quickly as possible. Many airports around the world have either reduced charges or defrayed capital costs over a longer period so that unit costs could be brought down. The DF at IGI Airport works in complete opposite, putting an even heavier burden on an industry that is already flailing and appears to place the interest of the airport above the greater interest of the industry.
- The DF was implemented without due consideration for one of the key ICAO principles for airport charges which is consultation. The following extract from ICAO Doc 9082/8 is self-explanatory:



"Advance, transparent and substantive consultation by airports and, to the greatest extent possible, agreement with users regarding significant project;..."

It is important that AERA insists on effective consultation between the airport and its airline users before a decision on the DF is taken. To ensure effective consultation, the airlines need to be provided with a comprehensive view of all associated costs relevant to the determination of the DF.

- The huge disparity in levels of DF for international and domestic passengers is not justified given the similarity in utilization of airport facilities by these two groups of passengers. This goes against another key ICAO principle of cost-related charging. In the absence of any reasonable justification, the existing disparity in levels of DF would be deemed discriminatory against international passengers and should be removed.
- The airport has failed to communicate any guarantee of lower charges in future as would be expected in a pre-funding situation. This key issue would feature in a consultation relating to pre-funding which regretfully, has not taken place.

In summary, IATA's recommendations to AERA are as follows:

1. The airport needs to clearly justify to AERA and the airlines that all options of financing have been explored and that pre-funding through levying a DF is the most beneficial financing option for the industry. The fact that the industry at this stage would be adversely affected by advance payment of airport development costs as opposed to deferred payment, should be an important consideration. In the absence of such justification, the DF should not be approved.
2. If DF can be shown to be the most viable financing option, then a reasonable period of time must be set aside for effective consultation between airport and airlines as stipulated by ICAO. Effective consultation demands that the airport provides full transparency of its costs and that the charges developed comply with ICAO's principles of cost-related and non-discriminatory charging.

Thank you.

Yours sincerely,

Malvyn Tan
Asst Director
Industry Charges, Fuel & Taxation