

विनीता भंडारी

कार्यपालक निदेशक (एकीकरण एवं औ. सम्पर्क)

Vineeta Bhandari

Executive Director (Integration & I.R.)



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28.4.10

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ED-II  
SM (Shri Sandeep)

Ref. No.ED(IC)/10  
26<sup>th</sup> April, 2010

Dear Mr. Prakash,


Sub: Proposed 10% increase in Airport Charges requested by DIAL / MIAL

This has reference to the AERA Consultation Paper Nos. 1 & 2/2010-11, on the proposed 10% increase in Aeronautical Charges requested by DIAL/MIAL, w.e.f 3.5.2009. After perusal of the documents under reference, our observations and suggestions are as per the enclosed attachment.

We agree with the interpretation of AERA of the AERA Act pertaining to the aeronautical tariff as explained in the paper. In our view, increase in charges as desired by DIAL/ MIAL would not be in the best interest of the growth of traffic to India as this will place burden on the airline operators.

We endorse the findings and recommendations of AERA in disallowing the proposed increase of aeronautical fees by 10% by DIAL and MIAL from 03.05.2009.

Regards,

  
(Mrs. Vineeta Bhandari)  
Executive Director (IR)

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

## COMMENTS OF NACIL

### Proposed 10% increase in Aeronautical Charges requested by DIAL / MIAL

1. It may be noted at the outset that DIAL / MIAL have not justified their proposals other than merely referring to certain clauses in the State Support Agreements (SSA) between them and the Government of India.

As per the Schedule 6 of the SSA agreement between MIAL / DIAL with GOI, the AAI airport charges, on the date of the agreement, i.e. 26.04.2006, are treated as 'Base Airport Charges'. A nominal increase of 10% over the Base Airport Charges was to be allowed to DIAL and MIAL in the event it completed and commissioned the Mandatory Capital Projects (MCPs) required to be completed during the first two years from the effective date.

However, in spite of the delay of DIAL in the completion of the MCPs as per the agreed timelines, AAI had condoned it in February 2009 and approved a 10% increase in Airport Charges. Therefore, such increase not only defies the sanctity of the 2 year period as defined in the SSA, but also passes on additional burden on the users. We are not aware as to who would be the certificating authority for all such milestones like completion of MCPs, since, the corresponding incentives to Airport Operators is simultaneous with the milestones being achieved. There should be a certifying authority and if not so far identified then AERA could be such an authority.

MIAL was granted a 10% increase in airport charges in December 2008, followed by DIAL in 16<sup>th</sup> February 2009, which was not justified. It may be mentioned that the charges at all other airports including those run by Airports Authority of India were allowed the same increase from April 2009.

2. We agree with AERA contention that an increase of 10% every year from the commencement of the 4<sup>th</sup> year onwards, would mean that the GOI have agreed to a doubling of Base Airport Charges in about 7 years time irrespective of the actual determination in terms of principles set out in Schedule 1.

This would also have a two-fold effect on the functioning of the Airport:

- i. If escalations in Airport Charges is guaranteed year over year at a predetermined percentage, it negates the economic concept of tariff

- determination. Similarly, it does not offer a scope to analyze individual cost heads vis-à-vis services rendered by the Airport Operators.
- ii. The Airport Operators need to establish benchmarks and only on it's achievement should they be permitted to revise the Aeronautical charges.
3. M/s DIAL and M/s MIAL have requested for an increase of 10% on the Airport Charges, which are prevalent on date. However, it is clearly mentioned in clause 3, schedule 6 of the SSA that the revised rates by AAI were not to be considered for revising calculation of the Aeronautical Charges. Since an increase of 10% has already been approved by the GOI after the completion of 2 years, no further increase in the rates should be applied from 03.05.2009 for DIAL or MIAL.
  4. It is felt that the Schedule 6 of the SSA does not warrant for an automatic increase of 10% in the airport charges prevalent during the third year, upon commencement of the fourth year and every year thereafter.
- The interpretation of DIAL / MIAL that AERA / GOI are bound to permit an increase of 10% of the base airport charges after the commencement of 4<sup>th</sup> year and every year thereafter, is not correct.
5. Based on the Balance Sheet of DIAL, as appended to the papers forwarded, it is observed that the Shareholders' Funds went up from Rs. 1336 crores in 2008 to Rs.2513 crores during 2009 viz., an increase of 88%, of which Rs.1250 crores is the Share Application Money "pending allotment", as on 31<sup>st</sup> March, 2009. However, we are not aware if post these additions to the Shareholders' Funds, it has reached the ceiling vis-à-vis authorized Share Capital.
  6. Details of debt financing of DIAL / MIAL should be made available in greater detail and need to establish the sources / acquisition of funds executed in a diligent manner and at the lowest cost of acquisition. Similarly, various possibilities of availing cheap line of credit through FCBs / NCBs was explored or not in view of the cheap source of funding available through GDR's etc. ought to be verified.
  7. Whilst on the subject, all airlines continue to be not financially viable and therefore, there should be no increase in the Airport charges for atleast another two years.