

F.No. AERA/25013/CP/03/2009-10
Airports Economic Regulatory Authority of India

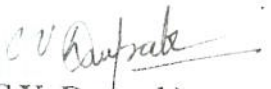
Room No.1,
New Administrative Block,
Safdarjung Airport,
New Delhi- 110 003

Dated the 19th March, 2010

OFFICE MEMORANDUM

Subject: Minutes of the meeting held with stakeholders

The undersigned is directed to forward herewith minutes of the meeting held with Stakeholders, on 16th March, 2010 at 1030 hrs, at Jacaranda - II Hall, Habitat World, at IHC, Lodhi Road, New Delhi 110003.


(C.V. Deepak)
OSD - II
Tel: 24618539

Encl as Above:

1. Shri V.P. Agrawal, Chairman, Airports Authority of India, Rajiv Gandhi Bhawan, New Delhi.
2. Mr. Marcel Hungerbuehler, Managing Director, Bangalore International Airport Pvt. Ltd, 118, Gayathri Lakefront, Outer Ring Road, Hebbal, Bangalore.
3. Dr. Krishnadas Nair, Managing Director, Cochin International Airport Pvt. Ltd, Nedumbassery, Cochin, Kerala.
4. Shri. Kiran Kumar Grandhi, Managing Director, Delhi International Airport Pvt. Ltd, Uran Bhawan, IGI Airport, New Delhi - 110 037.
5. Shri Kiran Kumar Grandhi, Managing Director, Hyderabad International Airport Pvt. Ltd, Hyderabad.
6. Shri G.V. Sanjay Reddy, Managing Director, Mumbai International Airport Pvt. Ltd, CSI Airport, Mumbai.
7. Shri Satyan Nayar, Secretary General, Association of Private Airports Operators, 4th Floor, Birla Tower, 25, Barakhamba Road, New Delhi.
8. Shri Arvind Jadhav, Chairman & Managing Director, NACIL, Air India Building, Nariman Point, Mumbai.
9. Mr. Ansbert D'souza, Chief Operating Officer, Air India Express, Old Airport, Santa Cruz (E), Mumbai 400027.
10. Shri Sunil Kishen, Managing Director, Alliance Air, 205, G+5 Building, IGI Airport, Terminal - I, New Delhi 110037.
11. Shri Jeh Wadia, Managing Director, Go Airlines, Paper Box House, Off Mahakali Caves Road, Andheri (E), Mumbai - 400093.

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12. Shri Rahul Bhatia, Group Managing Director, InterGlobe Aviation Limited ("IndiGo") Tower C Global Business Park MG Road Gurgaon 122002, Haryana.
13. Shri Naresh Goyal, Chairman, Jet Airways, SM Centre, Andheri Kurla Road, Andheri (East), Mumbai.
14. Shri Naresh Goyal, Chairman, Jetlite (India) Ltd., SM Centre, Andheri Kurla Road, Andheri (E), Mumbai.
15. Dr. Vijay Mallya, Chairman, Kingfisher Airlines, Kingfisher House, Vile Parle East, Mumbai 400057.
16. Capt. G. R. Gopinath, Chairman & Managing Director, Deccan Cargo & Express Logistes Pvt. Ltd., 4th & 5th Floor, Raheja Paramount, 138, Residency Road, Bangalore-560 025.
17. Shri Sanjay Aggarwal, CEO, Spicejet Airlines Ltd., Plot No. 319, Udyog Vihar, Phase-IV, Gurgaon, Haryana.
18. Shri Gopal Goyal, Chairman & Managing Director, MDLR Airlines Pvt. Ltd., MDLR House, SCO 2, 3, 4 Old Judicial Complex, Sector 15 Gurgaon, Haryana.
19. Shri M. Thiagrajan, Managing Director, Paramount Airways Pvt. Ltd., Alexander Square, 35, Sardar Patel Road, Guindy, Chennai.
20. Shri Anil Baijal, Secretary General, Federation of Indian Airlines, Reservation Building, 1st Floor, Safdarjung Airport, New Delhi - 110 003.
21. Ms Rohita Jaidka, Chairperson, Board of Airline Representatives (India), C/o NACIL, Air India Building, Nariman Point, Mumbai.
22. Shri Amitabh Khosla, Country Director - IATA, International Air Transport Association, 207-208, Kailash Building, 26, Kasturba Gandhi Marg, New Delhi.
23. Ms. Tulsi Nowlakra Mirchandaney, Managing Director, Blue Dart Aviation Ltd., No. 88-89 Old International Terminal, Meenambakkam Airport, Chennai - 600 027.
24. Shri Chandrajeet Banerjee, Director General, Confederation of Indian Industry, The Mantosh Sondhi Centre, 23, Institutional Area, Lodhi Road, New Delhi 110003.
25. Dr. Amit Mitra, Secretary General, Federation of Indian Chambers of Commerce & Industry, Federation House, Tansen Marg, New Delhi - 110001.
26. Shri D.S. Rawat, Secretary General, Associated Chambers of Commerce & Industry, ASSOCHAM Corporate Office, 1, Community Centre Zamrudpur, Kailash Colony, New Delhi - 110 048
27. Shri Ajay Sahai, Director General, Federation of Indian Export Organizations, Niryat Bhawan, Rao Tula Ram Marg, Opp. Army Hospital Research & Referral, New Delhi - 110057.
28. Shri P. K. Ghosh, IAS Retd., Managing Director, Consumer Education and Research Center, 'Suraksha Sankool', Thaltej, Sarkhej-Gandhinagar Highway, Ahmedabad-380054, Gujarat.
29. Shri Ram Khanna, Managing Trustee, Voluntary Organization in Interest of Consumer Education, 441, Jangpura, Mathura Road, New Delhi 110014.
30. Shri Pradeep S. Mehta, Secretary General, Consumer Unity & Trust Society (CUTS), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, Rajasthan.
31. Shri Amrit Pandurangi, Executive Director, Price Waterhouse Coopers Pvt. Ltd., Building 10, 17th & 18th Floor, Tower-C, DLF Cyber City, Gurgaon-122002.

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Copy to:

32. Sr. PPS to Secretary, Ministry of Civil Aviation, Shri K.P. Nair.
33. Sr. PPS to Shri E.K. Bharat Bhushan, JS & FA, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, New Delhi.
34. Smt. Abha Shukla, Director, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, New Delhi.
35. Shri Rakesh Mehta, Chief Secretary, Govt. of NCT of Delhi, Players Building, I.P. Estate, New Delhi.
36. Shri J.P.Dange, Chief Secretary, Govt. of Maharashtra, Mantralaya, Mumbai-32.
37. Shri S. V. Ranganath, Chief Secretary, Govt. of Karnataka, Vidhan Soudha, Bengaluru-560001
38. Shri Ashok M. Chakraborty, Chief Secretary, Govt. of West Bengal, Writers' Building, Kolkata-700001.
39. Shri D. Rajgopalan, Chief Secretary, Govt. of Gujarat, Secretariat, Gandhi Nagar.
40. Mrs. Neela Gangadharan, Chief Secretary, Govt. of Kerala, Secretariat, Thiruvananthapuram - 695001.
41. Shri Sanjay Kumar Srivastava, Chief Secretary, Govt. of Goa, Secretariat, Porvorim - 403521.
42. Shri K. S. Sripathy, Chief Secretary, Govt. of Tamil Nadu, Secretariat, Chennai-600009.
43. Shri S.V.Prasad, Chief Secretary, Govt. of Andhra Pradesh, C-Block, 3rd Floor, Secretariat, Hyderabad

F. No. AERA/25013/CP/03/2009-10
Airports Economic Regulatory Authority of India

Minutes of Stakeholder Consultation Meeting held on 16.3.2010

Subject: Consultation Paper containing AERA's proposed positions/approach on regulatory philosophy and approach in economic regulation of airports and air navigation services. (Consultation Paper No.03/2009-10 dated 26.2.2010).

A stakeholder consultation meeting was convened by the Authority on 16.3.2010 at 1030 hrs., in the Jacaranda Hall-II, India Habitat Centre, New Delhi, to elicit the views of the stakeholders on the Consultation Paper No 03/2009-10 issued by the Authority setting out its tentative positions in respect of its regulatory philosophy and approach relating to economic regulation of major airports, air navigation services, cargo, ground handling and fuel supply services. The list of participants is enclosed.

2. Chairperson, AERA welcomed the participants and made a brief presentation bringing out the salient features of the Consultation Paper. He also, briefly, discussed the rationale for the positions/approach, which the Authority proposes to take.

3. Shri G.V. Sanjay Reddy, Managing Director, MIAL welcomed the transparent procedure followed by the Authority and made following submissions:

- (i) The Authority has qualified the approach proposed in the Consultation Paper by stating that the covenants of concession agreements in respect of 4 major airports, i.e., Delhi, Mumbai, Hyderabad and Bangalore may require appropriate modifications to the general framework specified in the Consultation Paper. Clarity in respect of the approach to be adopted for these concession airports would help the private airports in formulating their views.
- (ii) The Authority proposes to keep the passengers as a key focus, which is a very welcome step.
- (iii) The new regulatory regime proposes a 'Single Till' approach, which is in practice in the United Kingdom system for past 20 years. It is debatable whether such a system has benefited the airlines and the passengers and has been successful in retaining focus on the service standards. The new terminal T5 at Heathrow Airport, which is half

the size of the proposed terminals at Delhi and Mumbai has costed about Rs. 30000 crores as against the estimated cost of Rs. 10 - 12000 crores in respect of Delhi and Mumbai.

- (iv) The international experience shows that, normally, the privatized airports follow dual or hybrid till system. This approach ensures incentives for non-aeronautical revenue; is cost effective; and leads to improvement in service quality. Otherwise, the operators may be tempted to gold plate the investments as single till would ensure more return to them on cost plus basis.
- (v) Overall, the Authority should anchor its regulatory policy to promoting investments; ensuring high standards of service at lowest costs; and protecting the investor interests. The policy should also encourage right behaviour. The single till may not be able to achieve these objectives appropriately.
- (vi) After the privatization of Delhi and Mumbai airports and operationalization of Hyderabad and Bangalore airports, there have been certain issues between the airports and airlines where both have learnt from the experience. This may not be taken as a benchmark for the industry behaviour in India.

4. Shri Kiran Kumar Grandhi, Managing Director, DIAL & HIAL welcomed the open and transparent consultative process followed by the Authority and stated that:

- (i) It would be incorrect to say that investment in non-aero activities is to the detriment of aero activities.
- (ii) For improving the experience of the passengers, the airport operator needs to focus on improvement of passenger processes. In a situation where 80% of the revenue of the airports in India is obtained from aeronautical services, the airports need incentives through better returns from non-aero activities to ensure focus on the passenger processes.
- (iii) The airport charges comprise just 4 to 5% of the cost of airlines. Therefore, there is a limit to which passengers/airlines can be benefited by any moderation in the airport charges.

5. The representative of M/s KPMG made following submissions on behalf of APAO:

- (i) The Consultation Paper states that the Authority will consider the provisions and consequently the effect of the concession agreements for the concession airports while/at the time of determining tariffs in

the first tariff cycle. There needs to be a clarity that the 'in-principle' positions taken by the Authority in respect of these concession airports are likely to continue beyond first tariff cycle.

- (ii) The Authority has proposed a user consultation process for incurring capital investment. In order to ensure greater accountability and thereby ensuring the success of such a process, definite timelines need to be specified within which the consultation process should conclude in respect of any specific proposal.
- (iii) Authority has given certain arguments in support of its proposed position of single till in paras 2.24, 2.43(b) of the Part II of the Consultation Paper. These need to be elaborated.
- (iv) Non-aero revenue also provides value to the consumers. Therefore, any decision in this regard needs to be taken keeping in view the context of the airport.
- (v) Authority's regulatory policy would have to be made with an objective to ensure timely investment, protect investors interest and to create world class infrastructure.

6. Member (Finance), Airports Authority of India felt that the regulatory policy to be followed by the Authority would need to encompass AAI airports, private airports and greenfield airports, in their respective backgrounds. It would have to also balance the objectives of protecting interests of the investors on one hand and ensuring fair charges to the end user on the other.

7. The representative of Cochin International Airport Ltd. stated that in case Authority finally decides to adopt the single till approach, there would need to be greater clarity regarding the coverage of real estate in the scope of single till. He elaborated that the Cochin airport has built golf course, hospital, amusement parks etc. for greater exploitation of the land assets. In his view, such non-terminal assets should be kept out of the scope of the single till.

8. The Chief Operating Officer, Bangalore International Airport Ltd. stated that their views have been covered by the APAO.

9. CFO, DIAL stated that the airport sector in India has not still entered a mature stage. Therefore, while following the CAPM approach, the issue of risk factors and fair return on the investment should be studied in greater detail. AERA may like to commission a study in this regard. He also stated that the proposal to cover only mandated security costs through PSF may be reconsidered as coverage of all aero services through landing, parking and housing charges etc. may put greater burden on the airlines which is, presently, shared with the passengers through a small facilitation component within the PSF.

10. President, MIAL stated that:

- (i) A single till position may lead to over investment (gold plating) to get higher returns.
- (ii) The concession agreements treat cargo, ground handling and fuel supply as non-aero activities whereas in terms of AERA Act these are defined as aero services. While the airports have no objection to these services being regulated in accordance with the Act, the economic effect of the services may be taken as non-aero as contemplated under the concession agreements.
- (iii) Mumbai airport has certain legacy issues like encroachment, presence of old tenants etc., which increases the risk for the investor. Therefore, return on equity in respect of Mumbai airport may have to be pegged at a higher level.
- (iv) In the Indian context, the interest rates on debt keep getting re-determined, normally, on an annual basis. Therefore, WACC may vary within the quinquennial cycle itself. Authority may consider this aspect before finalizing its views.
- (v) The Authority has proposed to provision for work-in-progress only through cost of debt whereas equity might also be invested in the same.
- (vi) The user consultation process is a very welcome step. However, there should be a threshold for such consultation process to commence.
- (vii) The OMDAs in respect of Delhi and Mumbai airports as well as the concession agreements for Hyderabad and Bangalore airports lay down certain service quality parameters, breach of which make the operator(s) amenable to a penalty to be paid to the AAI/Central Government. The rebate mechanism proposed by AERA should be implemented in such a way that the operators do not get penalized twice for the same default. The number of parameters and their respective weightage, as proposed by Authority, may also be reconsidered to ensure greater focus on the parameters which are more relevant to the users.

11. Representative of IATA stated that airport should be regarded as a single business. Therefore, single till is the most reasonable approach to regulate such a business. Further, a designated fair rate of return for airport should be sufficient to incentivise the investors. In any case, in monopoly situation, the users need protection, which is possible in a single till situation. While it is true that the airport charges constitute about 4 to 5% of the cost of airlines, the regulation is a

must to ensure that they do not increase, specially in an industry situation where airlines are bleeding and need to contain their costs vigorously. He also emphasized the ICAO principles of non-discrimination in airport charges to passengers.

12. Representative of FIA stated that the member airlines would express their views individually.
13. Representative of Jet Airways sought clarity in respect of inclusion of real estate in single till; and tax treatment of passenger charges such as ADF, PSF & UDF.
14. Representative of Indigo Airlines stated that:
 - (i) Certain airports, which are on the threshold of becoming major airports such as Jaipur, have been imposing user charges. In their view, such airports which may fall within the regulatory ambit of AERA, in near future, should not be allowed to exploit the situation.
 - (ii) The airlines support the single till policy proposed by AERA as it reduces the propensity of airport operators to exploit their monopoly position in respect of lease rentals, concession fees, etc.
 - (iii) Reacting to MD, MIAL's statement that the behaviour of past 2 to 3 years may not be an example of the industry behaviour, he stated that there is no option but to treat the same as benchmark.
15. Executive Director (Integration), NACIL suggested that there should be a mechanism to defray expenses of airlines due to excessive holding times of aircraft over certain airports. While pass through of mandated security cost is reasonable, Authority should also consider whether a cap could be put on security charges.
16. Managing Director, Blue Dart stated that in past 2 to 3 years the costs for the cargo operators have gone up substantially. The air cargo and air express industry have very different needs as compared to the passenger airlines and their interests should be appropriately addressed. Broadly, the economic oversight should be such as to encourage economic development. Cargo trade directly contributes to economic development and, therefore, needs special treatment.
17. Chairperson, BAR (India) raised the issue of excessive rentals, IT, communication charges etc. levied at certain private airports and stated that BAR (India) has requested the Ministry to declare a few of such non-aero activities as aero services under the AERA Act.

18. The representative of Air India Express requested that regulatory regime should ensure special treatment for low cost airlines.
19. Representative of VOICE stated that experience, specially in the electricity sector, suggests that there should be an independent audit of the costs, particularly where there is a pass through contemplated. The Authority should try to ensure best quality of service at lowest cost and, therefore, regulatory treatment of LCCs should be given priority. The regulation should encourage inclusive development and must result in affordable passenger/cargo services.
20. Managing Director, MIAL in his second intervention drew attention to the dichotomy of airports being regulated whereas airlines are unregulated. In this light, he stressed the need for oversight to ensure that the benefits of airport regulation are passed on to the passengers. He also stated that the initial years, after privatization of airports, have been a learning experience where both the airports and airlines have, hopefully, understood each other's issues.
21. CFO, DIAL drew attention to the experience in Australia and New Zealand where there has been a transition from regulation to light touch regulation (deregulation). He also stressed the need for keeping real estate, which are non transfer assets, out of the purview of the single till.
22. Representative of IATA in his second intervention stated that airports are 'public utility' and need to be regulated in a manner so as to ensure that their economic behaviour is in sync with their public service function. He also pointed out that in the Indian context, there does not seem to be any lack of investor interest as is borne out of the recent transactions in BIAL. IATA also raised issue of ensuring that ANS services are provided in an effective and efficient manner at optimum costs and that there should be no abuse of monopoly power.
23. Chairman, AAI stated that AAI in consultation with CANSO is undertaking performance evaluation of ANS services and would ensure that the best equipment and best technology are used to provide efficient, uninterrupted and safe air navigation services over the Indian airspace. The inefficiencies in the system are being addressed and there would be no over charging. He also stressed that while regulating the airports and the ANS, a broad view needs to be taken of the airport system as a whole.
24. In his concluding remarks, Chairperson, AERA thanked all stakeholders for their active participation and stated that:
 - (i) The request for a specific policy regime for greenfield airport, which incentivises investment, is noted. However, before this is proceeded further, it would need to be clearly understood as to which airports would qualify to be greenfield airports. It is debatable whether the airports which have been operationalized after closure of the existing airports, thereby transferring the traffic

of the closed airports to the new airports, could be treated as greenfield airports for economic regulation purposes.

- (ii) In the Indian context, the Government has, in many cases, exercised its sovereign right to acquire land and changed the zoning of such acquired land for airport purposes. In most of these cases, the land has been transferred to the airport developers at nominal fee for discharge of a public service. It can be easily argued that super normal profits, if any, obtained by the airport developers from commercial exploitation of land should be shared with the public by moderating the charges for airport activities and by ensuring that such profits are ploughed back into the airport development.
- (iii) Power sector may not be a real comparator for airports as there is large scale competition in that sector whereas in the airports sector, due to the 150 kms restriction, it is largely a monopoly position.
- (iv) The Tariff Authority for Major Ports follows the policy of ensuring 16% return on capital employed for ports sector. Planning Commission has also stated that a 16% return in the infrastructure sector is considered to be appropriate. This has been further amplified in the Consultation Paper wherein by way of illustration, it has been shown that in a given situation a 16% return on capital employed may result in approx. 20 to 21% return on equity.
- (v) While need for ensuring non discriminatory economic policies in light of the ICAO guidance is understood, there have been recent examples, specially in respect of solidarity levies, where 'ability to pay' has guided the rate of levy. He gave the example of France.
- (vi) Authority would consider the needs of LCCs. However, in this respect more details would be needed. LCCs may provide the same in their response to the Consultation Paper.
- (vii) The movement of airports in Australia and New Zealand from a price cap regulation to light touch regulation is in the knowledge of Authority. However, a light touch regulation should not lead to a exploitative situation. In this background, he recounted the recent newspaper stories regarding a sudden increase in parking charges at Sydney airport from Aus \$28 to Aus \$50 leading to public outcry.
- (viii) AERA is committed to provide a regulatory framework which keeps the airport sector viable and provides return to the airport operators consistent with the risk. The airports being public utilities need to serve the interests of passengers, which would be the basic anchor for any decision of the Authority.

List of Participants

Airports Economic Regulatory Authority

1. Shri Y. S. Bhave, Chairperson
2. Shri M. P. Vijayakumar, Member
3. Shri Sandeep Prakash, Secretary
4. Shri G. S. Bawa, OSD - I
5. Shri C. V. Deepak, OSD - II

- In Chair

Ministry of Civil Aviation

6. Shri. E. K. Bharat Bhushan, JS & FA

Airports Authority of India

7. Shri V. P Agrawal, Chairman
8. Shri S. C. Chhatwal, Member (Finance)

Govt. of Gujarat

9. Shri Ajay Chauhan

Govt. of Kerala

10. Shri R. Kumar

Bangalore International Airport Pvt. Ltd.

11. Shri Sanjay Narayen
12. Shri Hari Marar
13. Shri Anand Kumar

Cochin International Airport Pvt. Ltd.

14. Shri Dinesh Kumar
15. Shri Santosh Poovathil, Manager (Finance)

Delhi International Airport Pvt. Ltd.

16. Shri Kiran Kumar Grandhi, Managing Director
17. Shri Madhukar Dodrajka

GMR Hyderabad International Airport Pvt. Ltd.

18. Shri Siddharth Kapoor, Chief Financial Officer
19. Shri Jatin Ahuja

Mumbai International Airport Pvt. Ltd.

- 20. Shri Sanjay Reddy, Managing Director
- 21. Shri R. K. Jain, President
- 22. Shri Vinod Hiran, VP (Finance)

Associate of Private Airport Operators

- 23. Shri Satyan Nayar, General Secretary
- 24. Shri Tushar Sud (KPMG)
- 25. Shri Santosh Kamath (KPMG)
- 26. Shri Peeyush Mohit (KPMG)

NACIL

- 27. Smt. Vineeta Bhandari
- 28. Shri F. J. Vaz

Air India Express

- 29. Shri A. S. Gopinath

Alliance Air

- 30. Shri Sunil Kishan

Go Airlines

- 31. Shri Joshuce V
- 32. Shri Sumit

InterGlobe Aviation Limited

- 33. Smt Namrata Singh
- 34. Shri Siddhant Sharma
- 35. Shri Sanjay Kumar

Jet Airways

- 36. Shri Shiv Kumar

Kingfisher Airlines

- 37. Shri Manoj Chacko
- 38. Shri Murali R

Spicejet Airlines Ltd.

- 39. Shri Kiran Koteshwar

IATA

- 40. Shri Malvyn Tan
- 41. Shri Amitabh Khosla

Board of Airlines Representatives (India)

- 42. Smt. Rohita Jaidka
- 43. Shri Pervaiz Khan
- 44. Smt. Sarika Gandhi
- 45. Shri Kuldeep Singh

Blue Dart Aviation Ltd.

- 46. Smt. Tulsi N. Mirchandaney
- 47. Shri Arun Ahlawat

Confederation of Indian Industry

- 48. Smt. Vineeta Kanwal

Federation of Indian Airlines

- 49. Shri Ujjawal K. Dey

Federation of Indian Export Organizations

- 50. Smt. Priya Safiya

Voluntary Organization in Interest of Consumer Education

- 51. Shri Ram Khanna
- 52. Col S. N. Aggarwal

Consumer Unity & Trust Society (CUTS)

- 53. Smt. Aditi Gupta
- 54. Shri Navneet Sharma

PWC Pvt. Ltd.

- 55. Shri Amrit Pandurangi, Executive Director, along with his support team.