



29 September 2023

Director Policy & Statistics
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi 110003
India

Via email: director-ps@aera.gov.in, rajan.gupta1@aera.gov.in, secretary@aera.gov.in

Dear Sir,

COMMENTS ON AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF FIRST CONTROL PERIOD AERONAUTICAL TARIFFS FOR MANOHAR INTERNATIONAL AIRPORT, MOPA (GOX)

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 300 airlines or 83% of the world's air traffic. Many of our member airlines operate in the Indian market including Air India, IndiGo, SpiceJet and Vistara. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

IATA commends AERA for scrutinizing the proposal put forward by the Airport Operator (AO) of GOX. This is particularly significant given that it is the first tariff determination exercise for a dual-airport city system in India. We appreciate the detailed assessments made by the regulator on various aspects; such as the Capex and Opex, the moderation of cost of equity and debt. IATA agrees with these assertions by AERA. IATA also appreciates the role of the independent consultant engaged in examining the tariff proposal of the AO, as well as for the assessment of the Capex incurred.

We want to submit our feedback on the following aspects for further consideration by AERA:

Related Party Transactions and Impact on Airport Revenue

IATA would like to highlight issues that will impact the overall airport revenue on account of various related party transactions being undertaken by the AO.

- It is noted that Goa International Airport Limited (GIAL) is owned to an extent of 99.99% by GAL (GMR Airports Limited) and one golden share is held in the favour of the Government of Goa.
- Further, GIAL has awarded the cargo facility license, among others to GAL, its own holding company (against a 15.3% revenue share).
 - It should be noted/highlighted that the holding company (GAL) has bid and won not just a standalone concession, but has been awarded multiple such concessions by its own subsidiary GIAL.
 - The resultant impact of this concession design of each such concession accorded to its own holding company/related party/company subsidiary, leads to an artificial lowering of the AO's (GIAL's) own revenue – in favour of revenues generated by the parent/holding/ or related party firms.



- We would like to query whether the Government of Goa/the Authority has been made aware or has independently studied the impact of such related party arrangements (and the resultant artificial lowering of the gross revenue of GIAL) on the "Annual Premium" of 36.99% offered by the concessionaire at the time of bid for development of the new greenfield airport at Mopa. Was such an analysis regarding the impact on the "Annual Premium" amount undertaken before the Government of Goa / the Authority providing its consent for such related party transactions?
- It is also noted that amongst the various services at the airport, 7 of these have been awarded to the holding company (GAL) or other related/fellow subsidiaries. Additionally, all of the non-aeronautical services (like parking, retail, duty-free etc.) have also been awarded to the parent/holding company (GAL).
- We would request more information disclosure on this aspect; has GAL bid for and awarded similar services at other airports, on what terms were these services won by GAL, and what were the findings/role/observations of any appointed audit committee in most of the GIAL services being bagged by parent/related parties of GIAL.
- For most of the services, it is also noted that there is only one service provider in most instances. There is no evidence provided on price discovery for these services, and it is similar to an extension of monopoly power at the airport to related companies.

Impact of lack of competition in Ground Handling

IATA would also like to highlight concerns about the impact on airline costs on account of the lack of competition in Ground Handling (GH) operations. This is evident from the way that the GHA revenue share is structured. In the case of domestic operations where there is competition from the self-handling undertaken by domestic airlines, the revenue share is at 5%; however, it is six times higher (30.5% revenue share) in the case of GH services for international airlines. This is unfair and discriminatory and highlights a lack of regulatory oversight. We request that his concern be addressed in the final tariff order for GOX.

Non-Aeronautical Revenue (NAR)

IATA notes from the consultation paper regarding the Master Services Agreement (MSA) that the AO was undertaking and awarding to its parent/holding company GAL, has been cancelled on account of the intervention by the Government of Goa. We want to compliment the Government of Goa for its vigilance and action. However, we also note that the MSA is up for re-tendering and is likely to be awarded soon. We would like to highlight our concerns with the design of MSA that is increasingly being resorted to by private airport operators, including by GIAL in this instance.

We do strongly agree that the earlier version of MSA by GIAL was flawed in its design, as well as in its understanding of NAR. It is to be noted that:

- While 30% of the NAR of GIAL is to be used for cross-subsidizing the aeronautical charges, the structure of the related party award of the MSA to GAL would have limited it to 20.25% of the revenue share offered by GAL, to the AO.
- 30% of the 20.25% revenue share would have thus been offered to cross-subsidize Aeronautical charges, i.e., a mere 6%, as against the entire 30% of the total NAR, required under the hybrid till mechanism.

IATA has earlier highlighted similar concerns with this new emerging mechanism of MSAs being entered into with their holding companies for non-aeronautical revenues. Adani Airport was proposing a similar mechanism for Ahmedabad and Lucknow airports, where the MSA had been



entered into by the airport operators with their parent company Adani Airport Holdings in that case. IATA had opposed the same and requested AERA to address the issue, and we now see that GMR Airports too is adopting a similar MSA mechanism which will artificially reduce the NAR for the Airport operator – and IATA strongly opposes the same.

IATA would urge AERA to use the final order for GOX to correct all airport operator's understanding of NAR, by explicitly stating/confirming in the final Order that-

- 30% of the total NAR of the AO is to be recognized in offsetting aeronautical costs; and
- The level of 'Revenue share offered in any Master Service Agreement' earned by the AO, is not material to tariff determination.

Proposed Tariff Card

Significant complexity is built into the tariff card structure proposed by the AO. The complexity includes variables like hours of the day (morning, evening and night hours); schedule (winter and summer schedules); on which landing, parking and UDF charges are being proposed. Similarly, there is a proposal for UDF which is structured for embarking and disembarking, and with different rates for "peak" and "off-peak" flights. This in itself is discriminatory and must not be allowed.

IATA would like to highlight that airline reservation systems would not support such multiplicity in variables while adding charges/levies/taxes to the ticket cost for airline bookings. These charges must be absolute figures that are not based on the time of day, or the slot season, and should have parity between charges for Domestic and International flights. The tariff card should be based on a more straightforward formulation, like the basis followed for the earlier tariff awards by AERA. IATA would request moderation in the proposed charges for landing and parking as well as UDF for embarking passengers alone.

We look forward to your consideration of our comments and feedback.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Richard TAN', is written over a light blue circular watermark.

Richard TAN
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cc Amitabh KHOSLA, IATA Country Manager for India