# Conference on Economic Regulation of Airports in India

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# About APAO

- *APAO - Association of Private Airport Operators*

- *APAO was constituted as a registered society under Societies Registration Act 1860 on 20th January 2009*

- *The main objective of APAO is to promote and diffuse knowledge of operation and maintenance of airports to enhance contribution of aviation sector in Indian economy, to improve efficiency of airport operations, to maintain cordial relations with operators and Government and to foster good relations inter-se members.*

- *APAO members are BIAL, CIAL, DIAL, HIAL and MIAL*

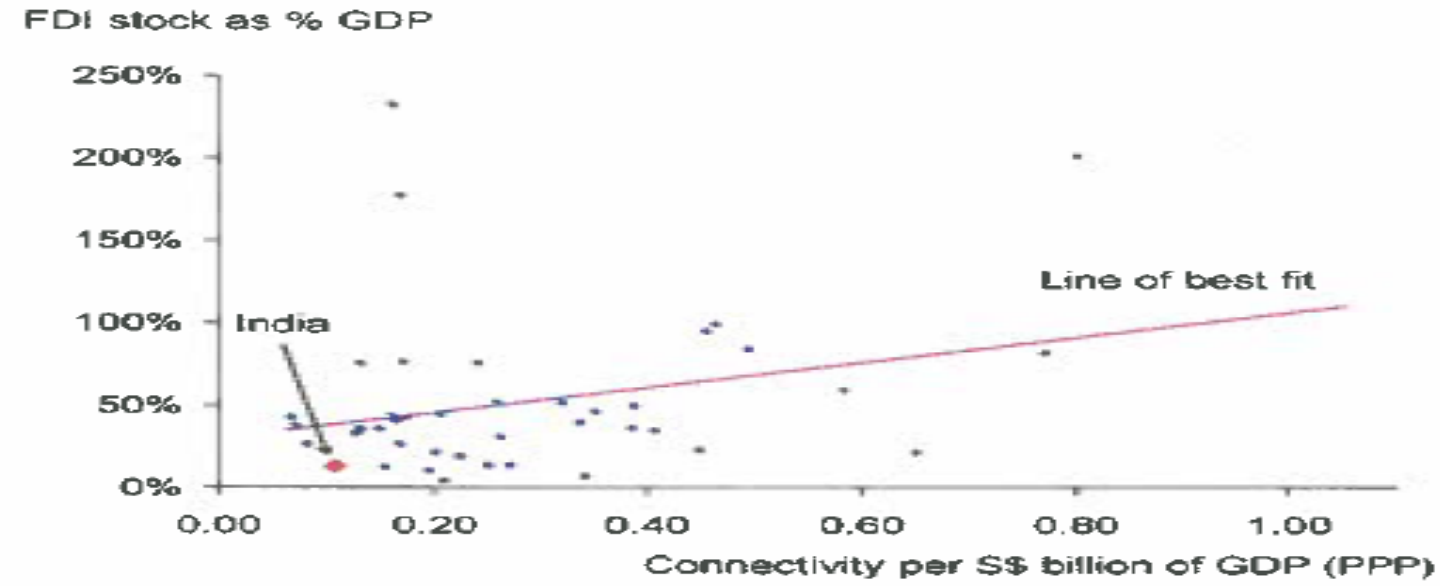
# Importance of Aviation

- *The demand for aviation services is strongly related to the growth in GDP.*
- *Growth in real GDP is dependant on increasing the productivity of available resources.*
- *Aviation increases productivity by increasing the mobility of labour, increasing connectivity and access.*
- *A study has estimated that each 10% increase in international air services led to a 0.07% increase in GDP.*
- *Cities such as Singapore and Hong Kong have established their reputation as major financial centers because of their high level of aviation service and connectivity to world markets. This is true of London, Paris, Frankfurt and New York, for example. Dubai has established itself as a major destination due to its excellent air service.*
- *In 2009, civil aviation contributed $6.2 billion (Rs 29,620 crs) to GDP of India , representing 0.5% of GDP and created 1.48 million jobs. However, if we include the catalytic impact the contribution is said to reach 1.5% of GDP and 10 million jobs.*

# Importance of Aviation

- *Improvements in connectivity have been accompanied by a steady fall in the cost of Air Transport Services and in real terms the same has fallen by around 1% a year over the last 40 years.*
- *Air Transport is becoming more and more competitive and it is estimated that its related cost is falling by 2.5% a year since 1990s.*

**Foreign Direct Investment and Connectivity**

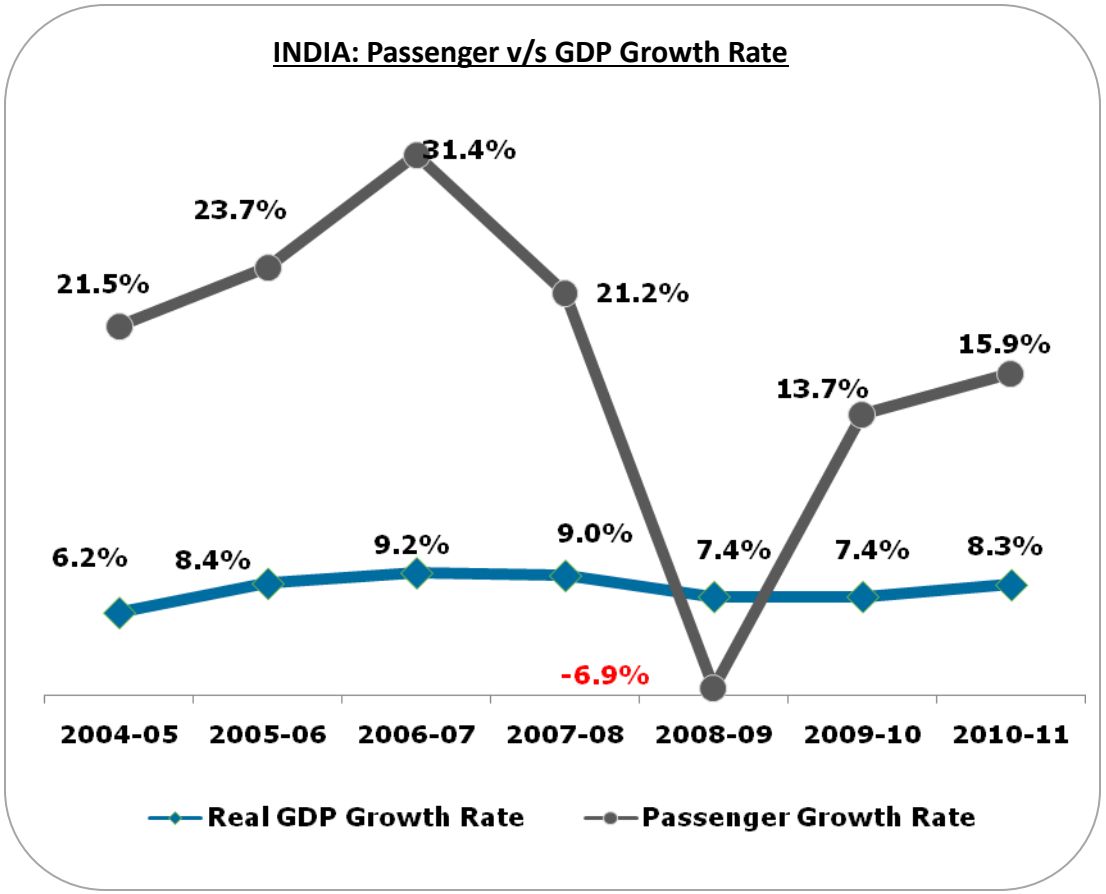



Source : Oxford Economics / IATA

- *The chart shows that countries with higher connectivity are in general more successful at attracting FDI. This is emphasised by the upward sloping line that confirms the statistical relationship between greater connectivity and greater FDI.*

# India – Economic Overview

***Indian real GDP grew by 8.3% YoY in FY'11***

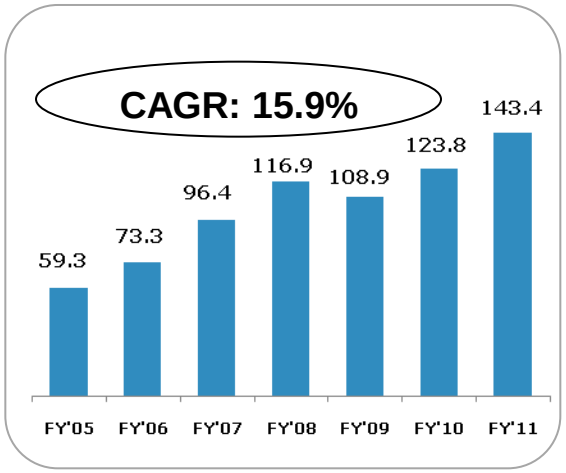



- *With the GDP growth recorded at 8.3% in FY'11, the Indian economy is one of the fastest growing economies in the world*
- *Investment in infrastructure in 12th Five Year Plan (FY12-13 to FY16-17) is projected to be $1 trillion*
- *50% of the investment is expected to come from private sector participation.*

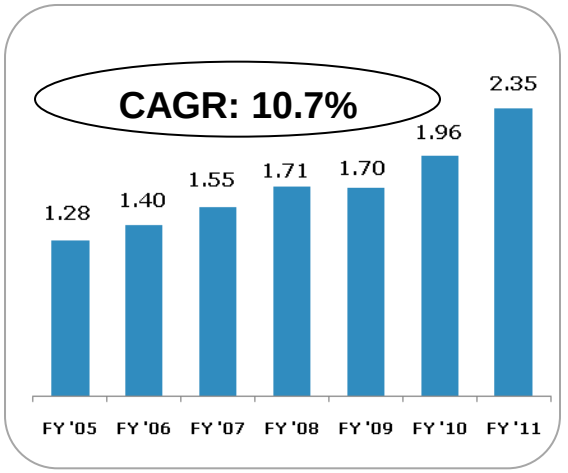
*Source: CIA Factbook*

# India – Aviation Overview

**Passengers (Mn)**




**Cargo (Mn Tonnes)**




- *Indian aviation market has seen 30 consecutive months of growth and 15 consecutive months of double digit growth.*
- *In 1994 there were 500 weekly departures in India, in 2011 15,000 daily departures.*
- *In the month of November, total passengers flown by domestic carriers were 5.4 million while during the 11 months period(Jan-Nov'11), passengers flown were 55 million i.e. 5 million per month.*
- ***India requires $30 billion in airport infrastructure investments by 2020, most of which has to come from private sector.***
- *Domestic traffic is likely to reach 210 million by 2020, with the international traffic in excess of 80 million.*
- *Currently, India has 90 operational airports and needs 300 operational airports to take the civil aviation sector to the next growth phase.*

# Financial health of the Airlines in India

*Despite a continuous growth witnessed by the aviation sector in India, the industry players are constantly grappling with high fuel cost further aggravated by very high taxation. This has led to a weak financial performance by the sector.*

| Details | KingFisher | | Jet Airways | | SpiceJet | | Air India |
|---|---|---|---|---|---|---|---|
| | FY'11 | Q2- FY'12 | FY'11 | Q2- FY'12 | FY'11 | Q2-FY'12 | FY'10 |
| Revenue (Rs. Crs) | 6,496 | 1,630 | 14,727 | 3,332 | 2,960 | 770 | 13,402 |
| EBITDA* (Rs. Crs) | (54) | (270) | 1,774 | 3 | 142 | (228) | (1,789) |
| PAT (Rs. Crs) | (1,027) | (469) | (86) | (714) | 101 | (240) | (5,552) |
| PAT/Revenue (%) | (15.8%) | (28.8%) | (0.6%) | (21.4%) | 3.4% | (31.2%) | (41.4%) |
| Revenue ($ Mn) | 1,444 | 326 | 3,273 | 666 | 658 | 154 | 2,978 |
| EBITDA ($ Mn) | (12) | (54) | 394 | 0.7 | 32 | (46) | (397) |
| PAT ($ Mn) | (228) | (94) | (19) | (143) | 22 | (48) | (1,234) |

*Note:*
*(i) Excluding exceptional item.*
*(ii) FY'11 and FY'10 figures converted @ 1$= Rs. 45 and Q2'12 converted @ 1$ = Rs. 50*

- *It is estimated that Indian carriers combined will lose $2.5 billion during FY 2012*
- *Above loss is on total revenue of just under $ 10 billion*
- *In domestic market, India's airlines lose $25-30 (Rs. 1250-1500) every time a passenger boards an aircraft*
- ***In spite of impressive growth, the above picture reflects a different story.***

# Who to Blame?

- *Higher ATF prices?*

- *Higher taxation on ATF?*

| ATF Prices | | | | | |
|---|---|---|---|---|---|
| **Particulars** | **1.4.2009** | **1.4.2010** | **YoY Change** | **1.4.2011** | **YoY Change** |
| Domestic | 30,803 | 42,159 | 37% | 59,900 | 42% |
| International | 22,762 | 30,854 | 36% | 44,975 | 46% |

- *Airport charges?*

- *Uneconomical Pricing?*

# Who to Blame?

*Rs. Crores*

| Details | Jet Airways (Domestic) | | Jet Airways (International) | | Spice Jet | | Kingfisher | | Total (Excluding International) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY '10 | FY'11 | FY '10 | FY'11 | FY '10 | FY'11 | FY '10 | FY'11 | FY '10 | FY'11 |
| **Total Operating Expenditure (Opex)** | 6,102 | 7,062 | 5,687 | 6,831 | 2,157 | 2,821 | 6,185 | 6,596 | 14,444 | 16,479 |
| **Airport Charges** | 407 | 439 | 712 | 744 | 145 | 176 | 396 | 433 | 948 | 1048 |
| **%age to Opex** | **6.67%** | **6.22%** | **12.52%** | **10.89%** | **6.72%** | **6.24%** | **6.40%** | **6.56%** | **6.56%** | **6.36%** |
| **Navigation Charges (Derived 59%)** | 240 | 259 | NA | NA | 86 | 104 | 234 | 256 | 560 | 619 |
| **%age to Opex** | **3.93%** | **3.67%** | **-** | **-** | **3.99%** | **3.69%** | **3.78%** | **3.88%** | **3.88%** | **3.76%** |
| **Landing & Parking (Derived 41%)** | 167 | 180 | NA | NA | 59 | 72 | 162 | 177 | 388 | 429 |
| **%age to Opex** | **2.74%** | **2.55%** | **-** | **-** | **2.74%** | **2.55%** | **2.62%** | **2.68%** | **2.69%** | **2.60%** |
| **Fuel Cost** | 1,885 | 2,554 | 1,873 | 2,613 | 814 | 1,226 | 1,803 | 2,274 | 4,502 | 6,054 |
| **%age to Opex** | 31% | 36% | 33% | 38% | 38% | 43% | 29% | 34% | 31% | 37% |

- *For FY'11, the Revenue per RPK for various airlines was as follows: Jet Airways – Rs. 5.5, Jetlite – Rs. 3.8, Spicejet – Rs. 3.21, Kingfisher – Rs. 5 and* Indigo - Rs. 3.33. For FY'10, the RPK was as follows: Jet Airways – Rs. 5.58, Jetlite – Rs. 3.67, Kingfisher – Rs. 4.43
- *It shows with increase in fuel cost by 42%, change in RPK was only 3.5% for Jetlite and 12.9% for Kingfisher, whereas it declined by 1.4% for Jet Airways. Similar trend is expected of other airlines as well. There was no increase in airport charges.*
- *Airport revenue from concession fee for Ground handling, catering and fuel throughput not included.*
- *Fuel cost is the main reason for losses. If fuel cost was lower by 10% entire airport expense could be met out of this saving only.*

APAO
ASSOCIATION OF PRIVATE AIRPORTS OPERATORS

# AIRPORT ECONOMIC REGULATION

Bengaluru INTERNATIONAL AIRPORT
COCHIN INTERNATIONAL AIRPORT LTD.
DELHI INDIRA GANDHI INTERNATIONAL AIRPORT GMR
HYDERABAD RAJIV GANDHI INTERNATIONAL AIRPORT
Chhatrapati Shivaji INTERNATIONAL AIRPORT MUMBAI
Chhatrapati Shivaji International Airport
GVK

# Airport Economic Regulation Worldwide

- *Airports are considered natural monopolies as far as airside is concerned.*
- *This has led to economic regulation of Airports*
- *Different countries have adopted different forms of economic regulation for airports*
- *Few examples are presented in the table below*

| Country / Airport | | Remarks |
|---|---|---|
| UK, Austria, France, Ireland, Norway, Spain, Portugal and most airports in Germany | Single Till/ Single till with price cap regulation (RPI/CPI-x) | Aero service prices below provision costs which poses a problem, specially at congested airports. |
| Frankfurt, Copenhagen, Malta and Budapest | Dual Till | Argument that regulation should be confined to the monopolistic bottleneck and incentive for developing the non aero business should not be stifled |
| Belgium and Netherlands | Rate of Return | Complex and no incentive to reduce cost |
| Australia and New Zealand | Price Monitoring and Threat of Regulation | Trigger or "grim strategy" regulation where a light-handed form of regulation is used until the subject firm sets prices or earns profits or reduces quality beyond some point and thus, triggers a long-term commitment to intruding regulation |

# Study on Alternative Forms of Economic Regulations and their Efficiency Implications for Airports

- *Tae Hoon Oum, Anming Zhang and Yimin Zhang conducted a study on various forms of economic regulations for airports. (Reference: Journal of Transport Economics and Policy, Volume 38, Part 2 (2004)*

| Form of Regulation | Remarks |
|---|---|
| **Single Till** | ▪ In case where allowed return is greater than or equal to the actual cost of capital, the airport has an incentive to make excessive investment in capital<br>▪ As the regulation is essentially cost based, the airport would not benefit from cost reduction.<br>▪ As Tretheway (2001) puts it "It is something like having an unlimited expense account: if you could produce a receipt, you would be reimbursed" |
| **Dual Till** | ▪ As long as concessions are profitable, the airport will invest efficiently and provide airside services with minimum social cost, regardless of whether concessions are regulated or not. |
| **Price Cap** | • Airports under-invest in capacity<br>• Thus, while the price cap regulation alleviates the distortion in airport charges, it introduces the distortion in airport capacity constraints. |
| **Rate of Return** | • May have undesirable implications for airport behaviour, leading to inefficient capital investment and a general lack of managerial drive to reduce cost and improve efficiency. |

# Single v/s Dual Till i.e. Airlines v/s Airports

- *Innumerable papers have been written on pros and cons of single and dual till regulations.*

- *There is no conclusion that which regulation is the best and fits in all cases.*

- *Different airports may have to be regulated under different regime. Airlines (IATA) always propagate single till while Airports will like to have dual till.*

- *There is no doubt that pricing in single till is not cost based and against economic principles that user pays. In the short run, single till may bring down charges for aero services but in the long run it will stifle growth of non aero revenue.*

# Various Views about Single and Dual Till

| Name | View |
|---|---|
| Beesley (1999) | Price cap regulation is inappropriate in case of London Heathrow |
| Tretheway (2001) | ROR regulation tends to be complex, unresponsive and expensive to administer |
| Kunz and Niemeier | Cost-based RoR regulation used in Germany is inefficient and results in the mis-allocation of resources |
| Starkie (2001) | *Ex-ante* regulation for airports might be unnecessary because the airports are unlikely to abuse their monopoly power due to the existence of complementarity between the demand for aviation services and demand for concession services. |
| Starkie (2001) | Since increased concession activities can cause superior locational rents, and increase in traffic volume at an airport, would often produce a significant increase in its profitability. Therefore, even an unregulated profit-maximizing airport would have a strong incentive to reduce aviation user charges in order to take advantage of the unidirectional demand complementarity from passenger volumes of aircraft movements to concession sales. This means that, as long as an airport provides both aviation services and retailing activities, its incentives will be to set airside user charges lower than if runways were a stand alone facility, and thus there may be no need to regulate its aviation user charges. |

# Various Views about Single and Dual Till

| Name | View |
|---|---|
| Tae Hoon Oum et al. (2004) | ▪ The extent of the under investment is found to be less under the dual till price cap than under the single till price cap<br>▪ Total factor productivity is greater under the dual till price cap than under either the single price cap or single till ROR<br>▪ Analysis supports the argument made by several economists that dual till regulation would be better than the Single Till regulation in terms of economic efficiency, especially for large and busy airports. |
| Australian Productivity Commission Inquiry Report (2002) | ▪ The scope for airports with market power to use (or abuse) that power is constrained by commercial pressures and opportunities, particularly the substantial 'non-aeronautical' income to be had from promoting airline passenger traffic.<br>▪ In these circumstances, because of the risks and potential costs of strict price controls relative to more light-handed price regulation, such controls are judged not to be required even at the four airports with substantial market power.<br>▪ The Commission's preferred approach is to put in place a light-handed regulatory regime (additional to general competition law) in which all seven airports assessed as having some market power would have their pricing and other behaviour monitored for a 'probationary' five-year period. |

# Various Views about Single and Dual Till

| Name | View |
|---|---|
| Australian Productivity Commission Inquiry Report (2002) | ▪ If the Government nevertheless were to opt for a stricter form of price regulation, CPI-X price caps are preferred because they can offer incentives for efficient airport operation.<br>○ Unlike the existing price caps, however, any new price caps should be explicitly based on a 'dual till' and factor in anticipated investment.<br>○ Conventional price caps would be confined to Melbourne, Brisbane and Perth airports. For a capacity-constrained Sydney Airport, arrangements should not be such as to force prices down.<br>○ Whatever the regulatory framework decided for Sydney Airport, that policy, in particular the pricing and investment provisions, should be clearly and publicly articulated to bidders so that the sale price can adequately reflect it. |
| Australian Productivity Commission Draft Inquiry Report (2011) | ▪ Under light-handed regulation, airports have continued to invest to meet the growth in air travel, without the bottlenecks that have beset other infrastructure areas:<br>○ There has been a marked increase in aeronautical investment since the removal of price-caps, with an additional $9 billion projected over the next decade<br>○ Aeronautical charges do not indicate misuse of market power and quality outcomes are generally 'satisfactory', although airlines have, on occasion rated two airports as 'poor' |

# Various Views about Single and Dual Till

| Name | View |
|---|---|
| Competition Commission of UK | ▪ In practice there would be no effect on air fares at either congested or uncongested airports if airport charges were to be higher at the three BAA London airports as a result of a switch to a dual till regime.<br>▪ A move from the single till to the dual till would in the longer term mean a substantial transfer of income to airports from airlines and/or their passengers, potentially undermining regulatory credibility and creating regulatory uncertainty |
| Aeroports De Paris (ADP) | ▪ ADP moved to a dual till regulatory regime from 1st January, 2011.<br>▪ The move was driven by ADP's objective to remain competitive, concentrating on larger investments and making airport business attractive for the investor. |
| New Zealand | ▪ In May 2003, the Commerce Minister announced that no controls would be imposed at any of the three airports viz. Christchurch, Wellington and Auckland. Commerce Minister mentioned that she had "taken into account a wider range of matters than those the Commerce Commission was asked to consider. I have given particular regard to the negative net public benefits of control and the relatively small net benefits to the airlines, and indirectly passengers". |

# IATA

*(Reference: Conference on the Economics of Airport and Air Navigation Services, Montreal, June 2000)*

- *All activities within the airport perimeter should contribute to the single till.*
- *User to have choice what should go in single till.*
- *Further IATA wanted to change para14 (i) of doc 9082/5 from*

***"…but allowing for all revenues, aero or non aero, accruing from the operation of the airport to its operators"***

*to*

***"…but allowing for all revenues, aero or non aero, accruing from the activities on the airport to its operators"***

*to cover revenue from all activities on the airport instead of revenue accruing from operations on the airport,* ***but this change was not considered by ICAO while finalising doc 9082/6.***

# IATA

*(Reference: IATA submission for Hongkong International Airport)*

- *Though IATA agreed for cost related charges, but at the same time, on treatment of land, it had a totally divergent view as follows:*

  - *Land is an asset which does not have a limited life. Therefore, the land used by an airport should not be taken into account in calculating return on Capital or depreciation. Land should be treated as an investment by the airport owner, which does not yield a return, but may be disposed of (if the airport closes) at a significant capital gain.*

# ACI

*(Reference: ANSConf, 2000- WP 48)*

- *"Single-till" is wide spread, it is neither universal nor mandatory.*
- *Seven of the top ten US airports do not operate this kind of cross subsidy.*
- *Contrary to the understanding of some airlines, there is no international legal obligation to operate a Single Till.*
- *While Single Till helps to reduce airline operating cost in the short term through lower airport charges, it distorts the market, and gives rise to three specific problems:*
  - *It reduces short term costs at the expense of longer term investment.*
  - *Reduced airport's ability to develop new and better commercial facilities reduces the amount of commercial revenue available to the airports in the longer term.*
  - *Single Till contributes to the creation of additional congestion and environmental pressure*
- *ACI suggested following measures to mitigate these issues:*
  - *Allocating a part or all commercial operating surpluses for investment in airport facilities and services, rather than to the reduction of airport charges*
  - *Allocating part or all of commercial operating surpluses for distribution to the airports' owners to attract more capital to the airport*
  - *Excluding in the definition of the range of activities to be included within any Single Till, any commercial income which is won in fair competition with other non-airport providers (such as hotel rentals, or long term parking garages).*

# ACI

***Changing aviation industry***

- *The new reality is that airports compete against each other, and face correspondingly reduced market power in their negotiations with airlines.*
- *In fact, for some airports, the balance of power has completely changed over recent years, with airlines and airline alliances often being the dominant party in negotiations*

***Fewer 'single till'***

- *Fewer regulatory regimes can be said to be 'single till', as regulators increasingly hone their activities in on the specific operational areas where market power actually exists.*
- *For example, both Paris Charles de Gaulle and Brussels Airport have begun moves towards a hybrid till in recent times.*

***Regulatory focus***

- *Under the single till model, airlines remain strongly incentivised to lobby for unrealistically low airport charges,* ***secure in the knowledge that the resulting infrastructural deficit will protect their market position from further competition.***
- *The regulator should use the 'economic approach' as the guiding approach.*
- *Efficiency is most readily achieved when economic actors react to the correct pricing signals provided by the goods and services which they consume.*

***Level of charges***

- *If charges are unsustainably low then the long term impact is damaging for both airports and the end users of airports, if not necessarily the airlines.*
- ***The role of the regulator is not to ensure a low price but rather a just price.***

***Non-aeronautical revenues***

- *Over-reliance upon the single till by regulators does not encourage airport operators to maximise non-aeronautical revenues. Instead airports would be incentivised to provide high-cost services with no accompanying commercial revenue generating activities.*
- *Profits from non-aeronautical revenues are reinvested in airport infrastructure, reducing the need for airports to borrow money on capital markets. In addition, such profits result in better credit ratings, leading to lower costs of capital.*

# ICAO

***Cost basis for Airport charges***

- *Where an airport is provided for international use the user shall bear the full share cost of providing the airport.*
- *User charges should be non-discriminatory, cost-related, transparent and should be finalized after due consultation with users*
- *Statement by the council to contracting states on charges for airport and Route Air Navigation facilities (1973) had the following clause – 9 (i):*
  - *The cost to be shared is the full economic cost to the community of providing the airport and its essential ancillary services, including appropriate amounts for interest on capital investment and depreciation of assets, as well as the cost of maintenance and operation and management and administration expenses,* ***but allowing for all revenues, aero or non-aero, accruing from the operation of the airport to its operators.***
- *The above clause continued upto 2001 (Doc 9082/6). Subsequently, this clause was changed to <u>22 (i) doc 9082/7</u>:*
  - *The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration ,but allowing for all aero revenues* ***plus contributions from non-aero revenues accruing from the operation of the airport to its operators.***

# ICAO

- *The revised version of ICAO doc 9082, approved by the Council in October 2011 and to be published shortly as the ninth edition, further clarifies the position of ICAO on the subject of the cost basis for airport charges.*

- ***The new version leaves no doubt that ICAO stands neutral on the subject of dual or single-till, leaving it to the economic oversight adopted in each state to decide on this matter.***

- *From the above it is evident that:*
  - *ICAO does not propagate Single Till, even if it did earlier, it changed the same after 2001 as is evident from the relevant clause reproduced.*
  - *Even if contribution (not all contribution/revenue) from non aero revenue is to be taken it is only from airport operations not from other activities like hotel, real estate etc.*

# Is there a correlation between Till and Charges?

| Rank by Airport Charges and Number of Airports by Type of Regulation | | | | | |
|---|---|---|---|---|---|
| **Rank** | **Single Till** | **Dual Till** | **Hybrid** | **Light Hand** | **Indeterminate** |
| **1 - 10** | 3 | 2 | - | 2 | 3 |
| **11 - 20** | 2 | 2 | 1 | 1 | 4 |
| **21 - 30** | 1 | - | 2 | - | 7 |
| **31 - 40** | 1 | 3 | 1 | - | 5 |
| **41 - 50** | 2 | - | - | - | 8 |

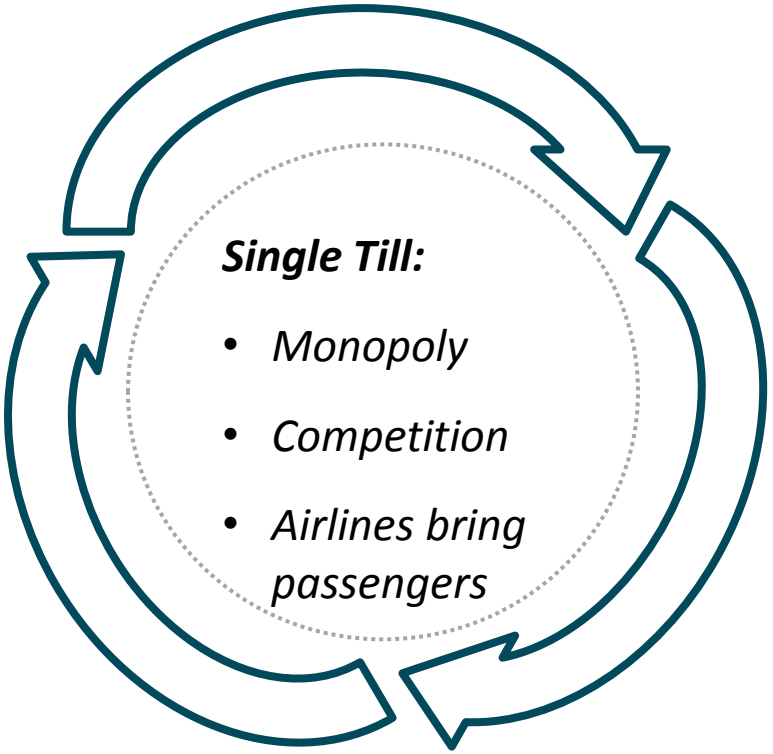
*Source: 2011 Review of Airport Charges by LeighFisher*
*Note: Rank 1 denotes most expensive and Rank 50 denotes least expensive.*

***It is quite evident from above that there is no perfect correlation between economic regulation (single v/s dual till) and airport charges***

# Are the Arguments Presented in Favour of Single Till True?

***The proponents of Single Till present three key arguments in favour of Single Till***

- ***Airports are monopolies and will exploit their monopoly power***
- ***Airlines operate in a highly competitive environment and need to reduce operating cost to be competitive.***
- ***Airlines are the ones responsible for bringing passengers to the airport so they "deserve" the money generated by these passengers.***



# Are the Arguments Presented in Favour of Single Till True?

***The above mentioned arguments are not true because…***

- *If airports were natural monopolies, they would not be able to expand the demand for their services through marketing or divert the demand from other airports.*
- *Airports compete in a broad range of markets from which they derive revenue.*
- *The argument that airlines deserve the money generated by passengers by bringing them to the airport ignores the significant investment airports undertake in marketing, retail strategies and terminal facilities to generate the revenue.*
- ***Flying is means to an end**.*

# Does Implementation Of Single Till Lead To Lower Aeronautical Charges?

- *Air carriers may or may not pass the whole of cost reduction due to lower charges to passengers.*

- *If the market demand is elastic then there will be an incentive for all carriers to reduce airfares but if demand is inelastic such as business passengers there is no incentive to reduce airfares.*

- ***The single till represents a simple transfer of profits from the airport to the airline.***

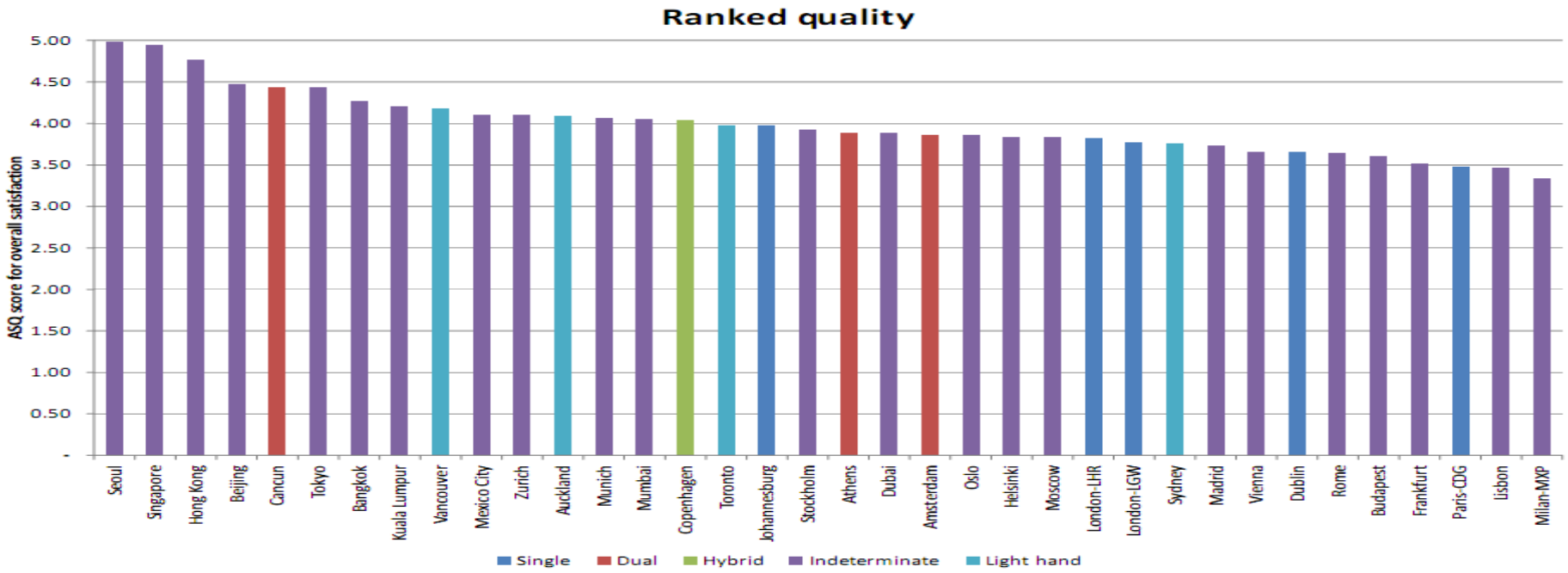
- *Asaf and Gillen (2011) find that a shift from dual to single till results in 21% reduction in cost efficiency. This proves that the results are symmetric and a move to dual from single till results in a 21% improvement in efficiency.*

# Role of Airport Regulations

- *Promoting public welfare and not protecting certain stakeholders of the Aviation Industry.*
- *Ensuring Competitive Prices and not Minimum Prices*
- *The issue for a regulator should not be whether charges are high or low but rather whether they produce the economically optimal outcome*
- *Developing the framework to promote investment, leading to better infrastructure and services thereby encouraging competition amongst airports.*
- *Confining their role to monopolistic aspects of airport operation i.e.. regulating the Aero Services while keeping the commercial activities such as retail, F&B, parking, etc. within an airport out of its ambit as they operate in a competitive environment.*
- *Creating incentives for the operator to create additional capacity or efficient usage of the facilities to maximise the number of passengers (or freight volumes).*

# What India Needs?

- *There is a requirement of huge private investment for development and expansion of airports in order to cater to passenger traffic growth*
- *The evidence is that dual till is better than single till in attracting investments.*
- *Research has shown that nominal prices for airside services are lower under single till than dual till, which must happen by definition.*
- *Lower service quality under Single Till may result in quality adjusted prices being higher. <u>See the chart below.</u>*
- *Inefficiency effect of Single Till may result in prices being higher than they would be under a Dual Till regime.*



# What India Needs?

- *There is no best fit regulation. Regulation has to be adaptive to the requirements*
- *India needs substantial investment, that too private, for airport infrastructure.*
- *It is essential that returns are attractive enough for private investors*
- *If recovery and cost relatedness is followed, cost of providing aero services should be fully recovered.*
- *If airport non aero revenues is fully put in the till, there will be no motivation to increase non aero revenues as the entire amount goes for subsidisation.*
- *There is no doubt that in terms of economic efficiency, dual till regulation has a more positive impact than single till.*
- *It is a well known economic principle that subsidies, as in the case with single till distort markets and consequently distort investment decisions*
- *There should be dual till to make airport business attractive for private investors without ignoring passenger interest, which is taken care of even in dual till as excessive user charges at an airport would run counter to the objective of growing passenger and traffic volume. Higher aero revenues from higher user charges can never compensate for loss of passenger and traffic volumes with higher non aero revenues.*
- *Worldwide, privatised airports are generally regulated on dual till basis. This could be because of higher economic value of such airport during bidding process resulting in higher receipts to the government. Why it should be different in India?*
- ***If there is a competition, there need not be any regulation, there could be price monitoring i.e. light hand regulation.***

# Indian Scenario

| | Essentials for Driving Growth | Indian Scenario |
|---|---|---|
| 1 | *Regulatory regime should be in place before privatisation* | *Privatization before regulatory regime in place* |
| 2 | *Terms of grant of concession to be adhered to* | *Deviations are there e.g. Aero - Non Aero revenue treatments are different in OMDA and AERA Act , which should be adequately addressed by the Regulator* |
| 3 | *Clarity and certainty should be there on regulatory regime* | *More clarity desirable* |
| 4 | *Price monitoring* | *Price regulation* |
| 5 | *Ease of investment* | *Suggested procedures may delay decisions* |
| 6 | *Comfort to financiers* | *Step-in rights, lack of clarity may not be comfortable to financiers* |
| 7 | *Functional Freedom to privatised airports (PPP model)* | *So far, yes. But doubtful in future, with efforts to bring under Govt audit and RTI* |
| 8 | *Regulatory Till – preferably dual, at the most Shared to meet huge investment requirements* | *Regulator notified Single Till based tariff regime, even for private airports which were established before promulgation of AERA Act. Even AERA Act does not propagate Single Till. Airport operators are concerned .* |

# Airports Economic Regulatory Authority

- *Airports Economic Regulatory Authority of India Act, 2008 ("AERA Act") promulgated on 5th December 2008*
- *Regulatory Authority (AERA) was established on 12th May 2009*
- *Powers and functions of AERA were notified on 1st September 2009*
- *AERA Act 2008 stipulates vide Section 13 (1) (a) that tariff is to be determined by AERA taking into consideration:*
    - *i. The capital expenditure incurred and timely investment in improvement of airport facilities*
    - *ii. The service provided, its quality and other relevant factors*
    - *iii. The cost of improving efficiency*
    - ***iv. Economic and viable operation of major airports***
    - ***v. Revenue received from services other than the aero services***
    - ***vi. The concession offered by the central government in any agreement or MoU or otherwise***
    - *vii. Any other factor which may be relevant for the purposes of this Act*

# Expectation from Regulator

## ***Delhi and Mumbai***

- *Adherence to SSA and OMDA.*
- *Main concern - some of the revenue streams not envisaged as aero under OMDA covered as aero under AERA Act namely Ground Handling, and Cargo; and regulator is considering these activities and even fuel throughput as aero revenue.*
- *Thankful that regulator is treating concession fees to airport from cargo operation and ground handling as non aero. However, fuel throughput charges (concession fee) being treated differently, while into plane concession fee being treated as non aero – Confusion!*
- *For harmonious interpretation these revenue streams, from operator taking up these activities directly, may be regulated and 30% of the revenue should be used for cross subsidisation.*
- *If it is not considered it will lead to economic jeopardy as revenue shares were quoted based on these revenues being not treated as aero revenue.*
- *Any internal generation by way of refundable deposits and utilised for capital expenditure should be eligible for returns as in the case of internal accruals from operations.*
- *Fair cost of equity – indicative rates during bidding process should be considered, if not, there will be requirement to adjust revenue share.*

***Existing concession agreements should be fully honoured, not only in letter but in spirit. Any deviation in the Act may easily be addressed by harmonising with respective Concession Agreements.***

# Expectation from Regulator

## ***Bangalore and Hyderabad***

- *Regulated charges are listed in schedule 6 which implies that all other charges will not be regulated.*
- *Clause 10.2.1 of concession agreement stipulates that charges should be consistent with ICAO policies*
- *ICAO does not propagate single till, ICAO propagates that charges should be cost based.*
- *Structure of concession agreement implies dual till.*
- *Exclusion of any asset, including land at market value, which is not meant for airport operations from RAB is unjustified as the same is not included in RAB. If any value is already included in RAB for such land and asset, the equivalent amount can be excluded.*

***Existing concession agreements should be fully honoured, not only in letter but in spirit. Any deviation in the Act may easily be addressed by harmonising with respective Concession Agreements.***

# Expectation from Regulator

## ***Cochin***

- *CIAL does not have concession agreements like SSA and OMDA.*

- *Concept of Market value of land (owned by CIAL) for assessing RAB is not correct and needs to be reconsidered.*

- *Exclusion of land at Market Value may even result in negative RAB, putting the existence of the Company at stake.*

***Existing concession agreements should be fully honoured, not only in letter but in spirit. Any deviation in the Act may easily be addressed by harmonising with respective Concession Agreements.***

# Expectation from Government of India

- *To ensure adherence to concession agreements and in this respect wherever there are deviations in the Act or approach of the regulator, Government to suitably address such situation to avoid any economic loss to the airport.*

- *In case of deviations by the regulator, revenue share may have to be adjusted to avoid economic jeopardy to the airports.*

- *To lay down a clear policy of Till regime for new upcoming/ future privatised airports. AERA Act does not propagate 100% cross subsidization.*

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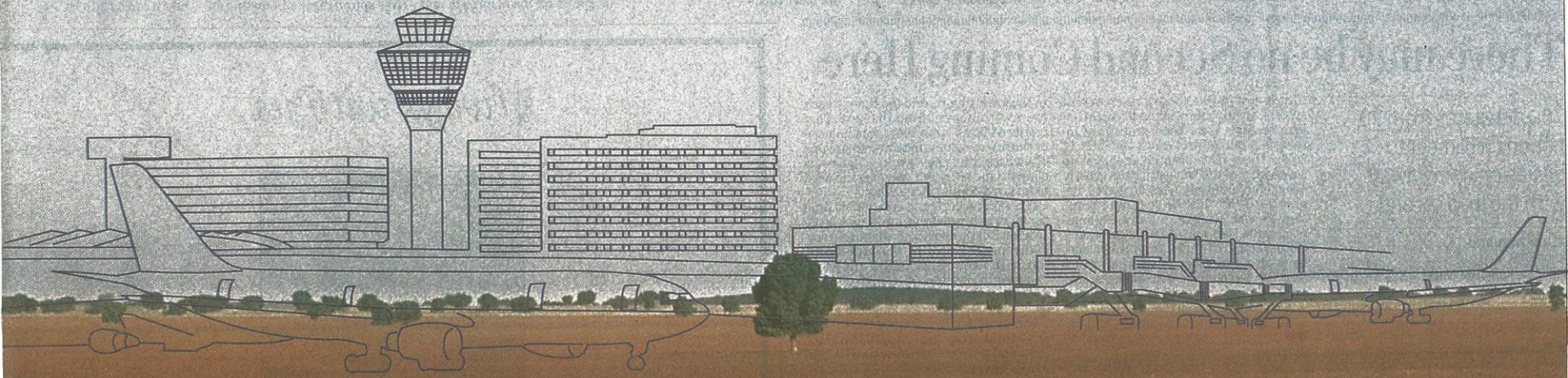

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