

“Taxation regime is not at all supportive to the growth of the airport sector”



The Association of Private Airport Operators represents major private players in the airport sector in India. In an exclusive interview to *Construction Business Today*, **Satyan Nayar**, its **Secretary General**, discusses major problems faced by private airport operators and how the government can foster growth of India's airport infrastructure.

How big is the gap between projected air traffic (passenger+ freight) and airport availability for the near future? Is the problem just spatial or geospatial?

In the last 10 years air traffic in India has increased more than four times and it is expected to increase with the same growth rate. Therefore India is

witnessing explosive growth and the airport infrastructure would not be able to meet the expectation unless large scale development takes place to meet future demand in time. There is also an urgent need to build airport capacity to process cargo which is in the high growth path. This will also require large scale additional fund through private participation.

At present there are a total of 125 airports in India, of which 84 are currently operational. The five PPP airports of Delhi, Mumbai, Hyderabad, Bangalore and Cochin currently handle approximately 65 per cent of India's total air traffic. It is estimated that by 2021 India will become the third largest civil aviation market with a passenger throughput of 420 million passengers and an aircraft fleet strength of 1,100 aircraft. To meet this growth in demand India will require approximately 250-275 operational airports by 2021. Less than 3 per cent of Indians are taking to air travel as of today, so the potential to tap this growth is immense.

How can private operators bridge this gap?

Investment in airport infrastructure is capital intensive with significant risk and long payback period. The basic rationale for opening the sector for private participation has been to cater to the enormous size of investment required for the high growth Airport sector. Five major airports were developed in India under PPP model which were intended to attract private capital and also world class standards of service, quality, and performance. These PPP model airports have delivered airport infrastructure that is internationally comparable. These infrastructures were built with some support of state government with increased focus on higher user satisfaction for passengers, increased focus on land use and real

estate activities and with a greater focus on non-aeronautical revenue generation. The expected investment during Twelfth Plan period is Rs 65,600 crore out of which Rs 50,000 crore are expected from private sector alone. The above indicates that only the private sector can bridge the gap in fund requirement and building capacity in airports, provided an investor friendly atmosphere is created by the government and the regulator.

Your comments on 'viability gap funding' for unviable but essential projects...

Infrastructure projects have long gestation periods and are not financially viable on their own. As government alone cannot meet the huge fund requirements, there is a need to promote Public Private Partnership. Viability gap funding is one of the options envisaged to promote PPP projects by reducing the capital cost of the projects and making them viable and attractive for private investment. As per the Planning Commission it can be upto 40 per cent of the projected cost. Many of the unviable projects can become operational with the support of viability gap funding.

Which is the best business model for awarding airport projects - PPP, BOT, BOOT, EPC etc?

There is no best fit business model fitting for all situations. However, from the experience, both domestically and internationally, it is proved beyond doubt that PPP model development will be best suited to the present airport sector in the country. Under PPP model, there are various frameworks available such as BOT, BOOT, BOO, EPC and DBFOT etc. DBFOT (Design, Build, Finance, Operate and Transfer) is generally considered superior model for development of airport infrastructure in the country as private sector involved in designing, building, financing and management of the

asset, with no obligation to the government, have more flexibility. However, the success depends significantly on adoption of a comprehensive policy and regulatory framework necessary for addressing the complexity of PPP, particularly for balancing the interest of users and investors.

What would be a model concessionaire agreement for private players?

A model concession agreement is a policy

and regulating framework spelt out to address the issues which are important for mobilising resource financing infrastructure projects, unbundling of risk, allocation of risk and rewards, predictability of obligations, force majeure and termination, user protection, dispute resolution and financial support from the government etc. A comprehensive framework in the form of model concession agreement is a pre requisite for success of any PPP project.

What are the major challenges faced in the bidding stage vis-à-vis funding, taxation, execution etc. Does the bidding process need to be more transparent?

There are several challenges faced by private participants at various stages such as bidding, funding, taxation, execution etc due to uncertainty and unpredictability on several critical issues. There is also an issue of lack of clarity in the bid documents. The best way to address these issues are framing of a model concession agreement, which is transparent and clearly addressing all these issues in the development of the airport, including the risk allocation mitigation, project implementation, user fees, service quality etc.

Should the government have different metrics for evaluating taxes etc for overseas projects?

Government can have different metrics for evaluating taxes etc for domestic and overseas projects. However, we believe that the taxation regime in the country today is not at all supportive to the growth of the airport sector. We have requested the government that the tax regime should be revised in view of the distortionary nature of the present system of taxes and its negative impact on the development of the aviation sector in the country.

What kind of policy reforms would foster growth of the airports sector in India?

For growth of airport sector in the country, a series of reforms in the policy are required. A few of them are:

- A structured National Civil Aviation Policy
- A predictable regulatory regime. Honouring all agreements entered with private players and adherence to ICAO principle as per concession agreement and OMDA
- Dual Till tariff policy
- Investor-friendly policies – providing reasonable return to the investor
- Positive tax regime
- All future development of airports through PPP model

Should the tariff and pricing mechanism be left to market forces?

Yes, we believe that a light touch regulation will strengthen substantial scope for airports to ensure that their pricing regimes are fairly determined and transparently applied and can best protect the consumers' interest.

Any other comments you would like to make?

India's decision to invite private capital to participate in the modernisation of its

metro airports has been a tremendous success. Availability of world-class infrastructure by the PPP airports have transformed the passenger and cargo experience, improved the efficiency of airlines' operations and delivered a massive dividend to the state-owned Airport Authority of India. The five PPP airports in the last 5-6 years have delivered a massive dividend of US\$1.72 billion to the Airport Authority of India in the form of revenue share. In 2013-14 alone, AAI received a

revenue share of \$460 million.

Having said this, there are constraints also. Despite well thought-out and committed plans from the part of government to put in place efficient mechanism for private participation in the airport sector, still today only 3 to 5 per cent of the population are availing air travel. We have to go a long way in the development of the airport sector to make air travel accessible to the common man. The planning for the airport sector should be seen in a long term perspective. National Transport Development Committee has suggested that in the year 2031-32, airport capacity should be sufficient to process 1,150 million passengers per annum. This may require creation of large amount of additional capacity at an estimated cost of Rs 5,900 billion. This will be possible only if the Policy and Regulatory prescription are attuned to the development by prescribing forward-looking investor-friendly policies. Private participation through PPP model offers substantial potential benefits to government, AAI, private operators and consumers. APAO as an apex industry body of PPP airports in the country will engage with the government and other policy makers including the regulatory authorities to make this happen. ■