

ASSOCIATION OF PRIVATE AIRPORT OPERATORS

Regn No. S/64468/2009

Kiran Kumar Grandhi
President

R.K. Jain
Vice President

Satyan Nayar
Secretary General



APAO/ MOCA/2012-13

Dated: 26/06/2012

Shri Nasim Zaidi,
Secretary,
Ministry of Civil Aviation,
Rajiv Gandhi Bhawan,
New Delhi 110 001

Subject: Working Group Report on Air Cargo Logistics in India

Dear Sir,

A kind reference is invited to the Working Group Report of Air Cargo Logistics in India released by MoCA on 7th May 2012. We congratulate MoCA in drafting a comprehensive air cargo logistic report taking into account the concerns of stakeholders. The report has recommended many policy initiatives considering the long term perspective and future growth of cargo industry in India. Even though the report proposes several action plans to improve the cargo air logistic in India with fixed timelines, we have few suggestions which are furnished in the following paragraphs. We would request MoCA to kindly take into account our suggestions while formulating the Air Cargo logistics policy in India.

We appreciate the working group for recommending an integrated framework for air cargo logistics policy, Industry Infrastructure status to Air Cargo Logistic sector particularly recommending that the entities responsible for the cargo terminal operations to be allowed to issue tax free infrastructure bonds etc. The recommendation of the committee that gateway Airports could be accorded priority in setting up of AFC is highly appreciated. We welcome the proposal of setting up of 24x7 operations in air cargo complex. This will definitely improve the cargo operations at the airport and will also lead to efficient utilization of the infrastructure. We also appreciate the working group recommendation that the customs administration to be asked to exempt application of cost recovery on cargo terminals and also recommended that MoCA should review their own Greenfield Airport policy which specifies that the applicant for setting up of a Greenfield Airport will obtain clearance from the department of revenue for provision of customs services and the cost of providing these services will be borne by the airport company. We welcome this recommendation and urge the Ministry to vigorously pursue it as priority item. The following are some of our comments/suggestions which may kindly be taken into account while accepting/implementing the report:

1. Page 78 Para 8.1.3

Working Group Proposal: Working group has suggested that for a meaningful coordination among all agencies, there is a need to have inter-ministerial group that can steer through the reforms suggested in the report. The board shall comprise members from Ministry of Commerce and Industry, CBEC, Ministry of Road Transport and Highway, Ministry of Railway, Ministry of Environment and Forest, Ministry of Health and Family Welfare, Ministry of Agriculture and Corporation. The Board may also co-opt other secretaries to the Government of India etc.

APAO Submission: While we appreciate the recommendation of setting up of a high powered inter ministerial group for Air Cargo Promotion Board, we feel that the Air Cargo Logistics Promotion Board's respective Member's roles needs to be clearly defined and their respective area of coordination be spelt out as the Seventeen member promotion board consists majority members outside Civil Aviation Ministry and whose decisions in certain cases could lead to be a revenue risk for the airport operators. Hence, duties and roles of each Member should be well defined with a meaningful and comprehensive functionality or else it will dilute its essence and objective. We suggest that the board role should be only recommendatory. Further, the following points in the main function of the board are undesirable as it may directly impact the business objectives and revenue opportunities of the airport operator.

- a. To lay down policy guidelines for Public Private Partnership model of development of Air Cargo facilities at Airports and at off Airports.
- b. To completely restructure and monitor the functioning of Cargo Facilitation committee that are headed by Airport Directors of AAI and other private/JV airports.
- c. All proposals for approval of air cargo terminal operator under the custodianship rules etc. shall be vested with the proposed Air Cargo Logistics Promotion Board.
- d. To lay down policy guidelines for setting up of Air Freight Stations on the lines of ICD/CFS.

We reiterate our suggestion that the role of Air Cargo Logistics Promotion Board should only be recommendatory in nature. It cannot play the role of a policy maker or a regulator.

2. Page 83 Para 8.1.4

Working Group Proposal: Setting up of Air Freight Station as an off-airport cargo terminal station having facilities such as custom documentation/examination, cargo acceptance check, security check and palletisation etc.

APAO Submission: The committee has suggested for setting up AFS outside the Airport premises. If this is implemented there will be increased requirement of resources of customs, other regulatory agencies as well as other facilitatory agencies involved in the supply chain. On the contrary, enhancement of customs deployment at the airport terminals itself and 24 x 7 operations will substantially improve and enhance the

throughput efficiency at the cargo terminals. In fact, it is the Freight Forwarders, CHA's, transport agencies restricting their operations to single shift which needs to be addressed. Benefits of economies of scale can only be reached when the operations and management of AFS is vested with the airport cargo operator/concessionaire, who will do the required need analysis and also bring in the much needed expertise to run such facilities.

As per the OMDA and Concession agreements "cargo handling" and "operating cargo terminals" are part of Airport Business. Airport operator has the exclusive right and authority to handle cargo as well as to set up cargo terminals at the Airport. Functionally, a separate entity in the form of AFS to be set up off the present airport may dilute the right granted to the major PPP Airports. Hence, for each airport, based on its current capacity and future development of cargo infrastructure, a comprehensive need analysis should be done to ascertain whether AFS is needed or not. In case it is determined that AFS is needed, then it should function as an extended arm of the airport itself to make it viable for the key customers such as shipper and consignee. If not, the sole purpose for creating AFS will be defeated. We agree with Ministry that the gateway airports should be accorded first priority in setting up of AFS.

3. Page 98 Para 8.2.1.13 & 14

Working Group Proposal: The ground handling policy was suitably modified keeping in mind the special need of Express Airlines permitting self handling of their own flights and operations. Hence Express Airlines require adequate and appropriate space on a long lease of at least 10-20 years.....suitable instructions are issued to airport operators to provide adequate space on a long term lease to Express Airlines so that they can self handle.

APAO Submission: Air cargo infrastructure development at airport: It was recommended that Airport operator must mandatorily give minimum infrastructure space to Express Airlines. Any kind of mandation should not be insisted upon as in a purely commercial and business environment such mandation will adversely affect the future expansion plans & the revenue earning potential of Airport operator.

It was also mentioned in the report that Ground handling policy to be modified to allow Express Airlines self handling of their own flights and operations. This is against the very ground handling policy proposed by the Government. Hence, recommendation of allowing self handling by the Airlines may be considered for deletion from the Report. More importantly, when the government's ground handling policy is under challenge in the Supreme Court and therefore the matter is subjudice.

4. Page 99 Para 8.2.1.16

Working Group Proposal: Ministry of Civil Aviation may issue suitable guidelines to airport operators to ensure that all Express Airlines are provided space on a dedicated self handling basis on a long lease to implement the ground handling policy provisions relating to Express Airlines.

APAO Submission: Providing space for self handling for a long term lease of minimum 10-20 years etc. should be left to the decision of commercial or business negotiations and future growth considerations of the airport. No mandation should be provided.

5. Page 109 Para 8.5.1.1

Working Group Proposal: It is important to appreciate the role of Express Cargo as a whole being a key aeronautical activity and not an ancillary non-aeronautical activity.....Recognizing Express Cargo as an integral aeronautical activity with due importance being given.....

APAO Submission: It was mentioned that it is important to appreciate the role of Air Express Cargo being an "Aeronautical Activity" and not an ancillary "Non Aeronautical Activity". The issue of whether Express Cargo is aeronautical or non aeronautical activity is a contentious issue. Hence we submit that the report must avoid giving any such opinion that is against the letter and spirit of OMDA and Concession agreements.

In addition to the above we have the following suggestions:

1. All the PPP Airport Operators should be a member in the working group without exception and the draft Report to be shared/circulated to all major Airport Operators for their Opinions/Suggestions. BIAL and GHIAL airport representatives are not members of the Working Group/other Experts/Special Invitees and have not participated in any of the meetings.
2. Greenfield airports should not be compared with existing Brownfield airports for cargo logistic facility. Greenfield airports have no issues in terms of land and the issue of building air freight stations outside the airport premises should not be considered as these Airports have all the facilities within the airport land bank where world class cargo facilities can be built.
3. We submit that there is a necessity to explore the possibility of harnessing the established resources at the respective Airports where huge investments have already been made in building such infrastructural facilities.
4. Majority of the Cargo Concessioners has foreign investment in the form of FDI and they have entered into Concession Agreements with Airport Operators to operate for a period of 15 years. This should not get impacted. Without the involvement of Cargo Concessionaires at respective Airports it will have an adverse impact on any additional inflow of FDI wherein the Ministry of Finance is already exploring the possibilities of increasing the FDI inflows.
5. Cargo Concessionaires presently operating at the Major PPP Airports are major contributors to the Central and State Exchequer in the form of Customs duty/Service Tax/Income Tax etc. Any change in the existing pattern and agreements will impact the revenue to the Exchequer.

6. Certain Airports have also established Cargo Village which needs to be fully exploited keeping in view of the huge investments made towards building such infrastructure.

7. A view/opinion from the various Cargo Concessionaires currently operating at the major PPP airports should also be considered. This is of paramount important.

8. Cargo Concessionaires have already entered into the Service Levels Agreements (SLAs) with various airlines which needs to be honored else there will be breach of contract.

9. Cargo Concessioners have implemented the best international practices through international performance standards such as Full Time Equivalent (FTE), Productivity norms, Turnaround times for cargo handling which needs to be encouraged and supported.

10. Cargo Concessionaires have established specialized training centers headed by experts from within and outside the country for better handling and management of dangerous and hazardous goods. These centers will otherwise become a waste.

11. Cargo Concessionaires have also established best international practices on safety and Security aspects of cargo handling. Due consideration has to be given for all the efforts and investments gone in establishing such state-of-the-art facilities. Lead time required to re-invent the wheel for such kind of facilities should be taken into consideration before taking up any off airport cargo handling.

12. Stakeholders for Air Cargo includes Airports, Carriers, Custodians, Customs, Security Agencies and freight forwarder/customs house agents who have to be kept in the loop for their suggestions/opinions before taking-up any new initiatives in Air Cargo segment.

13. Leasing and allotment for common user and dedicated facilities should be solely rested with Airport Operator. It should not be arbitrary and should be purely based on RFP bidding process wherein all technical and financial requirements with business viability are projected and considered.

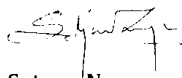
14. APAO would respectfully suggest that the Ministry may consider reducing the free period to 24 hours in export and 48 hours on import to improve the dwell time and achieve international standards.

To conclude, we appreciate the efforts taken by working group in identifying the areas for improvement and coming out with workable suggestions. The Air Cargo Industry plays a vital role in India's growing global trade. There is an immediate need to address various challenges to make it more efficient. Few of the initiatives which needs action by all, are benchmarking of physical activities with clear defined processes, E-initiatives, Optimizing of capacity usage through even utilization of transaction hours with the aim to move towards round the clock operations, standardization of transportation system, moving the cargo in the form of skids and simplification of regulatory clearances which will ensure enhancement efficiency of the existing infrastructure. Efficient cargo operations will

definitely reduce the cost of imports and exports and will enhance the competitive strength of our global economy. With an integrated approach we are sure, India would be able to reach the rightful place in the global air cargo industry.

Sir, we would respectfully request you to kindly take into account our above suggestions while implementing the working group recommendations/formulating the Air Cargo Logistics policy in India.

Thanks & Regards
For Association of Private Airport Operators



Satyan Nayar
Secretary General, APAO
M: +91 98100 49839