



AIRPORTS COUNCIL INTERNATIONAL

30 July 2021

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA)
AERA Administrative Complex
Safdarjung Airport, New Delhi – 110002
India

Sent by Email only to director-ps@aera.gov.in, jaimon.skaria@gov.in, (copy to secretary@aera.gov.in)

In the Matter of Determination of Aeronautical Tariffs for Rajiv Gandhi International Airport (HYD), Shamshabad, Hyderabad for the Third Control Period

Dear Sir/ Madame,

Airports Council International Asia-Pacific (ACI Asia-Pacific) welcomes the opportunity to write in response to Consultation Paper No.11/2021-2022 (the “Consultation Paper”) in the Matter of Determination of Aeronautical Tariffs for Rajiv Ghandhi International Airport (HYD or HIAL), Shamshabad, Hyderabad for the Third Control Period (1.4.2021 – 31.3.2026).

In representation of 122 airport operators managing 609 airports in 49 countries of the Asia-Pacific (APAC) and the Middle East Regions, ACI Asia-Pacific’s mission is to promote professional excellence in airport management and operations through a range of capacity-building services, policies and recommended practices.

ACI provides three recommendations in response to the Consultation Paper:

- 1) **Traffic Projection** - ACI recommends AERA to adjust the projected traffic level downwards and hence adjusting the aeronautical tariffs upwards so as to ensure economically sustainable recovery of the airport business;
- 2) **Capital Expenditures** - ACI urges AERA to consider the actual cost incurred and provide the right incentives and support to HIAL in this tariff application to ensure investments in sustainable and resilient infrastructure to cope with future demand and mitigate environmental and social challenges.
- 3) **Competitive edge of Indian airports within the global market:** ACI urges AERA to take into consideration the global competitive environment in which Indian airports operate to continue to generate economic and social benefits for the country.

Our detailed comments on the issues are set out below:

1) Traffic Projections for the Third Control Period

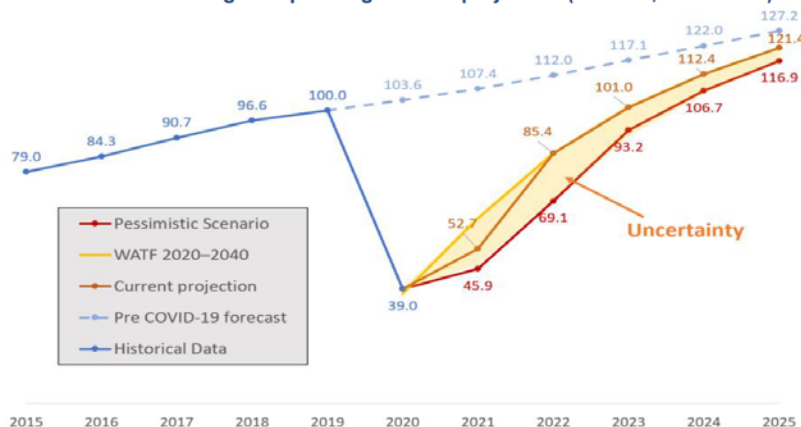
ACI submits our views on the impact of COVID-19:

Based on our latest data released on 14 July 2021¹, ACI data shows the impact of COVID-19 crisis is forecasted to remove an additional 5 billion passengers globally (1.7 billion in APAC) by the end of 2021 compared to the pre-COVID-19 forecast. Linked to traffic reductions, our estimates show that globally airports will suffer the reduction of more than USD 108 billion (USD 28 billion in APAC) in revenue by the end of year, representing a reduction of -45.7% in APAC.

Much uncertainty still surrounds the recovery of the aviation industry. Projecting the path to recovery at this point is still an exercise requiring prudence. While the vaccination efforts in many countries point to positive signs of a gradual recovery, the emergence of new variants of COVID-19 and the uneven distribution of vaccine continue to cause delays in lifting safety measures and travel restrictions in different markets. While the path of recovery remains uncertain, at the global level, ACI is cautiously optimistic that increased vaccination rates will help markets gradually ease travel restrictions over time.

In ACI's baseline recovery scenario, globally domestic passenger traffic is expected to reach 2019 levels in 2023 while the recovery of international passenger traffic will require one more year in 2024. At the country-market, due to uneven vaccines availability and worsening two-track economic recovery, some country-market will likely not reach 2019 passenger levels before 2025, or even later in some cases.

Chart 3: Medium-term global passenger traffic projection (indexed, 2019 = 100)



*The projected baseline (pre-COVID-19 forecast) scenario is based on a standard time-series forecast generated using the most up-to-date and complete historical data up to December 2019. It also uses an adjusted World Airport Traffic Forecasts (WATF) 2019-2040 and consider the latest insights provided by ACI Regional offices and other inputs.

** Estimated passenger traffic volumes scenarios based on a broad range of inputs provided by ACI Regional offices and industry experts.

Source: ACI World

¹ [“The Impact of COVID-19 on the airport business and the path to recovery”](#), ACI Advisory Bulletin, 14 July 2021

In Asia-Pacific, ACI observes that the large majority of Governments are taking a conservative approach in managing border restrictions and recent resurgences in countries such as China, Australia, South Korea, Thailand, Vietnam etc. once again led to lock-downs in many markets. Hence dampening the hope of restoring cross-border air traffic flows soon. Even though some markets are now actively catching up on vaccination rate, the short-to-medium term recovery trajectory is still highly uncertain.

In view of these unfolding situations above, ACI also considered the actual passenger traffic level in India and HYD in the first 3 months of FY2022 (i.e. April to June in 2021).

ACI observed that overall, in India and at HYD, passenger traffic experienced over 70% drop from corresponding periods in FY2020 (i.e. achieved only around 28% of the pre-COVID traffic level cumulatively from April to June 2021).

		AAI	HYD
Apr to June 2019 (FY2020 Q1)	A	84,540,125	5,570,388
Apr to June 2021 (FY2022 Q1)	B	23,430,237	1,532,627
Traffic level as per FY 2020 Q1	b/a	27.7%	27.5%

(Data source: Airport Category Wise Traffic Summary, 2021 & 2020 version, AAI)

India experienced the second wave of COVID-19 from April 2021, resulting in **domestic passenger traffic** dropping to around 30% of pre-COVID levels in the first quarter of FY2022.

In terms of **international traffic**, the high yield segment for airports which has been suspended for over a year, traffic level in the same period dropped to around 14% of pre-COVID level with limited signs of scheduled operations being able to restart in the near future.

In light of the above, in order for HYD to reach 70% and 50% of domestic and international traffic in FY2022 over FY2020 as proposed by AERA in the Consultation Paper (Section 5, Table 67 and Table 69) would mean HYD will need to achieve passenger traffic level at substantially close to pre-COVID level for the remaining 9 months from July 2021 to March 2022. AERA's estimation appears overly optimistic given current circumstances.

ACI recommends AERA to adjust the projected traffic level downward to consider a moderate recovery level in FY2022 and adjust accordingly for the remaining years in the third control period.

2) Capital Expenditures (Section 6)

In terms of proposed Capital Expenditure (CapEx), ACI World recently released a “Global Outlook of Airport Capital Expenditure” (the Outlook) that will provide valuable insights to assist the Authority in reviewing the proposals in the HIAL tariff application. The Outlook is attached in this submission for the AERA’s reference and we are available for further discussion at the time that is convenient for AERA.

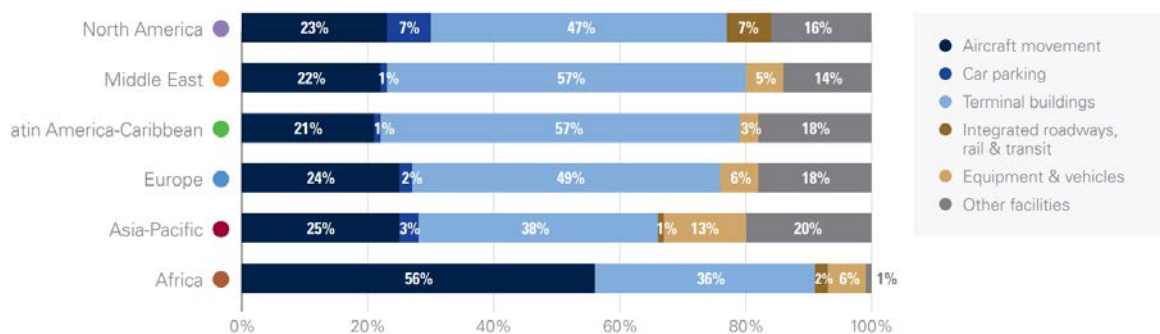
Regarding historical CapEx spent, ACI World observed that between 2015 to 2019, air passenger demand in Asia-Pacific experienced growth average at 8.1% CAGR², the highest among all world regions and the corresponding annual CapEx investment amounted to around US\$25.9 billion. (Extract of Figure 11 from the Outlook). China and India were among the fastest growing markets in APAC achieving the same CAGR of 13.3%³ during this period. (Note: For reference, the image of Figure 13 from the Outlook provides the breakdown of the types of projects in the CapEx projects by region).

FIGURE 11: Regional historical CAPEX and CAPEX per passenger, 2015–2019

REGION	AVERAGE ANNUAL CAPEX (US\$ MILLION)
Africa	\$1,191
Asia-Pacific	\$25,988
Europe	\$14,157
Latin America-Caribbean	\$1,912
Middle East	\$6,748
North America	\$13,784
Global	\$63,781

Source: Oxford Economics’ calculations

FIGURE 13: Global region average CAPEX by type (2013–2019)*



* CAPEX by type reflects brownfield CAPEX based on Survey responses from airports that are currently in operation.

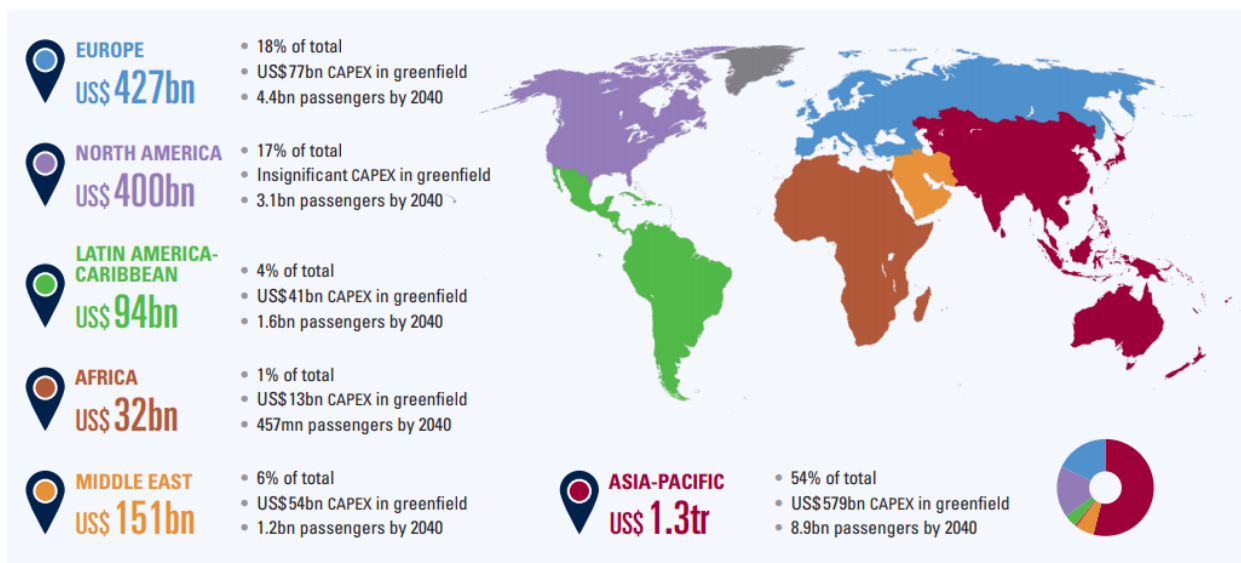
Source: ACI World – Annual Economic Survey, Oxford Economics calculations

² Compound Annual Growth Rate (CAGR)

³ “Global Outlook of Airport Capital Expenditure”, 20 June 2021, ACI, Chapter 7

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Looking ahead, as shown in the picture below, the Asia-Pacific region is estimated to require the highest volume of CapEx investment up to 2040. ACI World forecasts that out of US\$2.4 trillion in airport total capital investments needed globally to address the long-term trend in passenger demand to 2040, US\$1.3 trillion will be required to be invested in brownfield and greenfield airports (brand new airports) in Asia-Pacific, accounting for 54% of the global requirement. Notably, about 44% of the region's airport capital expenditure is forecasted to be allocated to the construction of greenfield airports, to the sum of US\$579 billion.



ACI acknowledged that the COVID-19 pandemic has caused some delays in capital expenditure, globally estimated to be around 33% or about \$28 billion in 2020. In Asia-Pacific, the vast majority of airports in major and fast-developing aviation markets such as Australia, China, Japan, Philippines, South Korea, Thailand and Vietnam have continued their capital expenditure plans taking a long-term planning horizon that goes well beyond the potential duration of the crisis. India should not be the exception to this dominant trend given its high growth potential of 13.3% CAGR in passenger traffic in the past 5 years and that 69% of pre-COVID passenger traffic in 2019 was handled by capacity constrained airports⁴. This is particularly true for HYD having surpassed the 13.3% national growth rate and achieved CAGR 16.9% in the same time period.

Over the long run to 2040, ACI expects that air transport demand will gradually recovers to previously projected level within the next decade. Asia-Pacific as a region is expected to contribute over half of global growth over the next 21 years with India being one of the fastest growing markets in the region (note: third largest market globally by 2040).

⁴ 2019 traffic level served by Slot constrained Level 3 and Level 2 airports in India

Investments in infrastructure will be needed to accelerate the recovery from COVID-19 and stimulate job creation. Failing to address capacity constraints through airport capital investment will lead to foregone passengers. ACI estimated that for everyone 1 million foregone passengers, the regional air transport industry will support 14,100 fewer jobs and US\$237 million less in regional GDP. (Executive Summary of the Outlook)

Per 1,000,000 foregone passengers		
REGION	LESS GDP (US\$ MILLION)	FEWER JOBS
Africa	\$295	37,300
Asia-Pacific	\$237	14,100
Europe	\$416	6,200
Latin America-Caribbean	\$256	9,600
Middle East	\$645	9,600
North America	\$553	4,400
World	\$346	10,500

Source: Air Transport Action Group (September 30, 2020) Aviation: Benefits Beyond Borders and Oxford Economics' calculations

ACI urged AERA to consider the actual cost incurred and provide the right incentives and support to HIAL in this tariff application to ensure infrastructures are in place well in advance to mitigate the risk of falling short on the sustainable long-term growth for the industry.

3) Competitive edge of Indian airports within the global market:

The COVID-19 pandemic poses significant financial challenges to the airport industry in addressing the need to modernize infrastructure, improve sustainability and resilience which will be required if passenger demand into the future is to be met. New and improved airport infrastructure will be key to the continued development of air transport beyond the recovery from the COVID-19 pandemic. This is particularly important for India as a market with high growth potential.

ACI has observed that the cash flow situation in many airports in the region and in India is becoming increasingly challenging. Many airports reported substantial losses for the last fiscal year and are increasingly relying on higher debt levels to maintain operations. The uncertain traffic outlook and downgrades in credit ratings have made it more costly for airports to secure financing. For this reason, airports in other key aviation markets such as US, Europe, China and Japan have benefited from substantial relief measures to navigate through the crisis. If Indian airports aim at preserving a competitive edge versus their peers' markets, such aspect should be duly taken into account.

ACI urges AERA to take into consideration the global competitive environment in which Indian airports operate to continue to generate economic and social benefits for the country.



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Conclusion

ACI Asia-Pacific thanks AERA for the opportunity to present this submission and we look forward to continue our engagement with AERA on economic and regulatory issues of the Indian airport industry.

For any enquiries about this submission and the Outlook (please see the attached). Please contact Ms. Suzanne Tong, Head of Economics & Finance at suzanne@aci-asia.aero.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stefano Baronci'.

Stefano Baronci
Director General
ACI Asia-Pacific