

15.09.2010

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To
Mr. Sandeep Prakash - Secretary,
Airports Economic Regulatory Authority Of India,
AERA Building, Administrative Complex,
Safdarjang Airport, New Delhi- 11003

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Dear Sir,

Sub: Comments on 'Economic Regulation of Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft' issued by AERA

Celebi Ground Handling Delhi Pvt. Ltd ("CGHDPL") welcomes the initiative of AERA ("Authority") in formulating the policy in a collaborative manner.

The Authority has issued this consultation paper on *Economic Regulation of Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft*, providing opportunities for the stakeholders to respond to the Authority's proposed approach in tariff determination. CGHDPL would like to make following suggestions and observations on the proposed regulations –

- CGHDPL, as an Independent Service Providers ("ISP") and a concessionaire, was formed by experienced domestic & international players. We were selected after international bidding process and there are inbuilt clauses to prevent any exploitation of market situation. The partners joined hands to create modern & efficient airport facilities. The tariff control regulation approach by Authority is a fundamental change in the economic environment, and this move is a clear shift from free market situation to a complex regulated one. Handling services across the globe are generally offered in openly competitive market conditions. In case of presence of any regulations, the same normally is brought to the notice of the service provider / bidder before he takes the decision for investment so that the same effect can be considered while preparing the feasibility study. We feel at this point of time if such kind of regulation is being brought into effect there will be an adverse effect not only in our business but also other players and the main objective of bringing Indian Aviation sector at par with the International standard will suffer being at a nascent stage of development. Being a new entrant, CGHDPL should be allowed more time before brought under the net of regulation.
- Under AERA Act, 2008 ground handling services at an airport are included in aeronautical service. However, under the Concession Agreement granted by Delhi International Airport Pvt. Ltd. ("DIAL"), these are treated as non-aeronautical. When we executed our agreements, it was presumed that ground handling services will be out of the purview of regulation. The Concession Agreement specifically stated that that the 'GH Services are to be provided as a part of the Non-Aeronautical Services under the OMDA. Being the concessionaire, we are regulated by the terms and clauses of the Concession Agreement'. The investment was made by the overseas and

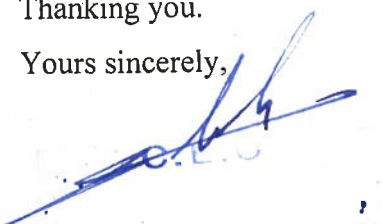
local partners based on the terms mentioned in the Concession Agreement and market conditions which offered free price mechanism with a top ceiling. Regulation of ground handling service will discourage the participation of the private sector which goes against the objectives of Civil Aviation Policy

- The principles of regulation mentions that price regulation should only occur in areas where monopoly power is exercised and not where a competitive or contestable market operates and so should apply only to aeronautical services and not to our company.
- CGHDPL has just started its operation (from June, 2010) and with the presence of other Ground Handling Company the market is really competitive. Therefore the market itself will regulate the prices. At the current business to business scenario the airline customers have a strong bargaining power. The tariffs are agreed upon after a lot of stiff negotiations with the assurance of providing high standard service level from our side. In this situation the presence of any regulatory body's directives will affect both the service providers and airlines.
- The basic aim of opening this area to private service providers like us was backed by a noble vision to build, operate and manage an airport of international standards with emphasis on building world class airport management facilities through private participation which is one of the objectives of Civil Aviation Policy.. In fact, the Civil Aviation Policy recognises that private participation (including foreign participation) is a must for both raising resources as well as bringing greater efficiency and hence the spirit would be defeated by bringing such ground handling services under the ambit of the regulator. In order to achieve this target we have invested sizable amount for procurement of new pollution friendly equipment. Naturally any kind of regulation may affect our ROI adversely at this point of time. We should also consider services offered under SLA have a direct relationship with the manpower cost.
- We feel that if AERA be implemented will bring only uncertainties to the existing functioning of the ground handling operation. The probability of uncertainties is quite high and depends on various external factors which are beyond our control (e.g. volcanic ash in May, 2010) and the new regulation will definitely increase the risk further.
- We have brought expertise and efficiencies in the Aeronautical service economy which has been duly acknowledged worldwide and we do believe that there should be a straight line equation between the service provided and the price charged for the same. AERA is confident about the service level agreement between ISPs and airlines but it is ignoring the right of price determination by ISPs for the same service standard. That is the reason we think that it is not the proper timing to bring any regulation at this point of time.
- We do feel that apart from number the parameters for computing the competition clause needs to be broaden.
- As all the competitors and ISPs have different service level agreement with airlines as well as the airport authorities, we do believe AERA should analyse all the perspective on a case to case basis instead of a generalised view.

Be assured that we will always extend our assistance and cooperation to AERA in implementing a proper regulation for ground handling services.

Thanking you.

Yours sincerely,


Hoseyin Taner Sari

