-544-

IATA

22 February 2011

Shri Sandeep Prakash
Secretary
Airports Economic Regulatory Authority of India
AERA Building
Administrative Complex
Safdarjung Airport
New Delhi 110003
Email: sandeep.prakash@aera.gov.in, sandeep.moca@nic.in
Fax +91 11 2469 5039

Dear Shri Prakash,

CONSULTATION PAPER No. 13/2010-11

IATA would first like to commend AERA for its continued commitment to transparency and stakeholder consultation as exemplified in this comprehensive Consultation Paper 'Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011'.

IATA's comments to the Consultation Paper are enclosed. A summary of the comments are as follows:

- Adequate time should be provided for airport-user consultations before the airport submits its Multi-Year Tariff Proposal and Annual Tariff Proposal to AERA.
- AERA should consult with users for the Multi-Year Tariff Proposal and the Annual Tariff Proposal before it issues the respective orders.
- At least one month should be provided between the issue of the Annual Tariff Order and the effective date of the new tariffs.
- Submission of tariff proposals from various airports should be staggered and sufficient time provided to users to give inputs in order to alleviate the strain on user resources needed to evaluate the proposals.
- AERA should exercise discretion if the fair rate of return derived from the methodology used does not reasonably reflect the risks faced by the airport.
- IATA supports the increasing re-balancing of airport charges towards direct passenger charges to better reflect the 'user pays' principle.
- Airport charges should be revamped to a simple and transparent per passenger basis structure.

International Air Transport Association
111 Somerset Road,
#14-05, TripleOne Somerset
Singapore 238164
Tel: +65 64992262
Fax: +65 64151201

- Increasing the proportion of aeronautical revenue collected from direct passenger charges would bring the situation in India closer to global norm.
- Revamp of airport charges should ensure that existing gaps in charge levels and practice between international and domestic flights/airlines that contravene ICAO policies of cost-based charging and non-discrimination are closed.
- Distribution of UDF to domestic and international passengers has to have a transparent, consistent and rational basis.
- The suggestion in ICAO's Doc 9562 Airports Economic Manual to use terminal space usage as the basis for allocating cost between domestic and international passengers should be pursued.
- Flexibility in implementation of charges increases arising from an under-recovery of the Actual Maximum Allowed Yield per passenger should be exercised when there is an industry downturn.

IATA believes that the document 'Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011' should be a living one i.e. reasonable changes should be made to improve the guidelines from time to time based on the experience gained after implementation.

Thank you.

Yours sincerely,

Malvyn Tan
Asst Director, Industry Charges, Fuel & Taxation
International Air Transport Association
Tel.: +65 6499 2262
Fax : +65 6415 1201
Mobile : +65 9030 9687
tanjcm@iata.org

cc Shri Yashwant Bhave
Chairman
Airports Economic Regulatory Authority of India
AERA Building
Administrative Complex
Safdarjung Airport
New Delhi 110003
Email: chairperson@aera.gov.in

COMMENTS ON
CONSULTATION PAPER NO. 13/2010-11
'AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA
(TERMS AND CONDITIONS FOR DETERMINATION OF TARIFF FOR AIRPORT OPERATORS) GUIDELINES, 2011'

1. **Procedure for submission and review of Tariff Proposal** (pages 7-9)

- The requirement for the airport operators to submit a Multi-Year Tariff Proposal within two months of the date of issue of the tariff determination guidelines does not allow time for proper consultation between airport and users. In turn, the requirement in Appendix 5 (A5.2.5) that the Multi-Year Tariff Proposal includes documented evidence that consultations with stakeholders have been undertaken, would not be possible to meet. IATA requests that necessary time be provided for airport-user consultations to take place before the airport's submission of the Multi-Year Tariff Proposal and the Annual Tariff Proposal to AERA.

- IATA requests that the timeframes specified in Doc 9082/8 (ICAO's Policies on Charges for Airports and Air Navigation Services) Paragraph 25 on Consultation Process be adopted. The relevant extracts are as follows:

  - *When a revision of charges or the imposition of new charges is contemplated by a provider or other competent entity, appropriate notice should normally be given to users or their representative bodies at least four months in advance,...*

  - *Reasonable advance notice of at least one month, of the final revision of charges or imposition of new charges should be given to the users.*

  Giving consideration to the above ICAO-recommended minimum timeframes, IATA would like to propose that the following steps be incorporated in the tariff determination process in order to promote effective consultation:

  - For the Multi-Year Tariff Proposal, after AERA has sought all the necessary missing information from the airport operator, it would carry out a detailed analysis and prepare a tentative order to be issued as a consultation paper to seek inputs from stakeholders.

  - AERA would provide 1 month for stakeholders to submit their inputs following which AERA would consider these inputs before issuing the final Multi-Year Tariff Order.

  - The Annual Tariff Proposal submitted to AERA would be made available by AERA to airport users for inputs. AERA would provide 1 month for users to submit their inputs and would duly consider these inputs before issuing the Annual Tariff Order.

- To ensure smooth implementation of tariff changes, new tariffs should take effect after at least one month from the date of issue of the Annual Tariff Order. This lead time is particularly critical for charges that are collected from passengers by airlines at the point of ticketing which could take place well in advance of the flight departure date.

- Given that a significant number of tariff proposals from different airports would need to be evaluated which would put a strain on resources needed to carry out the evaluation, IATA requests AERA to alleviate the potential strain by staggering the submission of these proposals, providing sufficient time (at least one month) for user inputs for each proposal, and exercising flexibility with the schedule if the situation warrants it.

2. **Fair Rate of Return** (pages 12-15)

- Airports should be incentivized to pursue an optimal capital financing structure. IATA supports the position that in assessing the fair rate of return for an airport with sub-optimal financing structure which results in a weighted average cost of capital not reasonably reflective of the airport's business risk, AERA would consider various factors with the underlying objective of protecting the interests of users.

3. **Annual Tariff Proposal** (pages 38-40)

- IATA endorses a re-balancing of airport charges towards direct passenger charges to better reflect the 'user pays' principle in particular since the bulk of the new costs to be recovered by the airport has to do with building, operating and maintaining the passenger terminal building used by passengers. Other reasons in favour of direct passenger charges are as follows:

  - The cost for use of the airport has already been determined in the form of a yield per passenger requirement. This cost has to be borne by the industry one way or another. The most efficient and transparent way to charge this cost is to translate the yield per passenger requirement into a direct passenger charge.

  - The use of a direct passenger charge would align the risks and goal of the airport and airlines, and ensure that they pursue a common objective of growing passenger traffic at the airport. When passenger traffic grows, that would translate to a lower yield per passenger requirement which would in turn benefit the passengers.

  - The cost of services provided to passengers by the airport should be borne by the passengers themselves. In the highly competitive environment that airlines operate in where margins are tight and fares are set according to market dynamics in isolation of costs, such a cost if carried by the airlines, would not get passed through fully to passengers and would make it harder for airlines to sustain their presence in the market.

- o Keeping airport costs off airlines' operating cost as much as possible makes operations to the airport more attractive and sustainable for the airlines and helps to make the airport more competitive as a transit hub.

- ➢ Airport charges at the main airports in Australia (SYD, MEL, BNE and PER) are largely structured on a per passenger basis. Landing fees at these airports are levied on a per passenger basis as opposed to the more traditional basis of using aircraft weight or movement. They are then either incorporated into the Passenger Service Charge or left as a separate charge item for airlines to pass through on the passenger ticket. At these Australian airports, direct passenger charges make up over 90% of total airport charges.

- ➢ In the recent tariff revision at SIN, the economic regulator accepted the airport's proposal to keep airlines related charges unchanged in order to maintain the attractiveness of the Singapore air hub for airlines. The revenue requirement was to be met instead through implementation of a new direct passenger charge for transit passengers.

- ➢ Table 1 on the next page shows the proportion of direct passenger charges to total airport charges at major airports in Asia, Europe and South Africa. Due to the presence of the Airport Development Fee (ADF), direct passenger charges for international departing passengers at DEL and BOM are currently at 84% and 71% of total airport charges, respectively. If ADF were removed, the proportion of direct passenger charges to total airport charges drops to 40% for both airports – well below global norm. When the term for collection of ADF expires at these two airports, another direct passenger charge (such as UDF) has to replace ADF in order to keep the charges structure in India in line with global norm.

Table 1 Direct Passenger Charges and Airlines Related Charges as a Proportion of Total Airport Charges at Major Airports in Asia, Europe and South Africa

Airport	Direct Passenger Charges as percentage of Total Airport Charges*	Airlines Related Charges as percentage of Total Airport Charges*	Remarks
MEL	100%	0%	
SYD	97%	3%	
KUL	96%	4%	
BRU	88%	12%	
BKK	86%	14%	
LHR	84%	16%	
DEL	84% (40%)	16% (60%)	Figures in brackets exclude Airport Development Fee
DXB	84%	16%	
CDG	80%	20%	
ZRH	79%	21%	
JNB	78%	22%	
AMS	77%	23%	
SIN	76%	24%	
MNL	75%	25%	
ICN	74%	26%	
CGK	72%	28%	
BOM	71% (40%)	29% (60%)	Figures in brackets exclude Airport Development Fee
FRA	67%	33%	
HKG	65%	35%	

Source: IATA Airport Benchmarking Model and IATA Charges Monitor

* Total Airport Charges comprise charges for landing, parking (up to 3 hours), boarding bridge/contact stand, baggage screening, security, central infrastructure, airport development, noise, emission, passenger service and passenger reduced mobility.
They are based on international departing passengers on A330-300 aircraft.

- The existing charging structure is not compliant with ICAO's policies on cost-based charging and non-discrimination in a number of aspects. Specifically, the following discrepancies should be fully addressed in the tariff setting for the first tariff cycle:
    - The 33% difference in landing charges between international flights and domestic flights should be removed.

- The 15% discount on landing charges if dues are settled within the 15-day credit period currently as offered to domestic airlines should be similarly extended to international airlines.
- Aircraft with a seating capacity of less than 80 passengers should not be exempted from paying landing and parking charges.

➢ IATA urges a full revamp of the airport charging structure in India to a simplified and transparent one where rates are largely expressed on a per passenger basis. To that end, IATA proposes the following process:

- Based on revenue collection for each category of airlines related charges over the past twelve months and the corresponding passenger volume, translate these charges into a per passenger basis and incorporate them into the existing Passenger Service Charge or leave them as separate charges. Recover the balance of the Aggregate Revenue Requirement through an increase in Passenger Service Charge or the introduction of another direct passenger charge such as User Development Fee (UDF).

➢ ICAO's Doc 9562 Airports Economic Manual states the following:

4.27 Where separate terminals are operated for international and domestic traffic, the air traffic costs of each terminal can be directly allocated to the traffic category concerned. In the case of common use terminals, their costs could, for example, be allocated on the basis of floor area used for international traffic only and for domestic traffic.

IATA views that the distribution of UDF between domestic passengers and international passengers should not be arbitrarily determined and that a transparent, consistent and rational basis agreed by stakeholders should be developed. The suggestion in Doc 9562 to use terminal floor area usage by each traffic category as the basis for allocation appears to be a fair one and should be pursued. One possible line of approach that could be developed further is described generically below:

- Consider only terminal floor area that are used for aeronautical revenue generation only i.e. spaces such as check-in hall, immigration hall, security screening hall, departure lounges and baggage reclaim area. Exclude floor space used for non-aeronautical revenue generation such as retail concessions and floor space for non-revenue purposes such as office space occupied by the airport company.

- Determine if the areas under consideration are used by domestic passengers only, international passengers only or jointly used by domestic passengers and international passengers.

- For spaces used jointly by domestic and international passengers (referred hereafter as joint space), assign a weight to the space usage according to the annual passenger throughput of each traffic category.

- Compute the ratio of <u>total space usage by domestic passengers</u> (i.e. space used by domestic passengers only plus domestic passenger-weighted joint space) to <u>total space usage by international passengers</u> (i.e. space used by international passengers only plus international passenger-weighted joint space). This ratio is then used for assigning the UDF rates for domestic passengers and international passengers.

- To keep the formula simple, factors such as dwell time of the passengers in the terminal building and the propensity of international passengers to spend at retail concession outlets (thus supporting non-aeronautical revenue generation) should be excluded.

4. **Recovery Error Correction Factor** (pages 41-44)

➢ The situation of under-recovery of the Actual Maximum Allowed Yield per passenger could be associated with an ongoing industry downturn that then persists over a protracted period. If the industry downturn remains for more than a year, it means that the increase in the Estimated Maximum Allowed Yield per passenger (warranted because of the under-recovery) would be implemented at a time when the industry could ill-afford to take it on. An increase in charges at such a time would put airlines under greater financial pressure and would delay traffic recovery. Under the situation, flexibility should be exercised by AERA to defer the increase by a suitable time period until such time when an industry recovery is clearly on the way.