विनीत भंडारी
कार्यपालक निदेशक (एकीकरण एवं औ.सम्पर्क)
Vinneta Bhandari
Executive Director (Integration & I.R.)
& NODAL EDT-3

एअर इंडिया
AIR INDIA

Pl. examine all stakeholder comments. We may have to seek comments of DIAL.

6553/ ... 19/5/11

13th May 2011

AGM (DBS)
As discussed
20/5/11

Sub: Review of Development Fee at IGI Airport, New Delhi

Dear Mr Prakash,

Air India has examined the Consultation paper on the subject

The comments of Air India, on the issues are attached as per the annexure enclosed.

With Regards,

(Vineeta Bhandari)
Executive Director-Integ. & IR

Mr Sandeep Prakash,
Secretary,
AERA,
Safdarjung Airport,
New Delhi.

Air India comments on
Review of Levy of Development Fee – IGI Airport, New Delhi
Consultation Paper No.2/2011-12

Air India appreciates and recognizes the substantial benefits of developing a world-class airport at New Delhi. The state-of-the-art facilities have firmly put the airport in the elite category of international airports. The world-class facilities like check-in counters, immigration desks, aerobridges, automatic travelators and latest runway landing systems, are designed to provide world-class experience to air travelers.

Air India has developed Terminal-3 as its prominent International hub to connect India to the world. It has increased its focus on providing a seamless passenger experience, while also connecting maximum passengers through non-stop and one-stop routes to destinations on its network.

The Ministry of Civil Aviation has approved levy of Development Fee on passengers from Indira Gandhi International Airport, New Delhi. This fee was approved for a period of 36 months w.e.f 1st March, 2009.

In regard to the Airports Economic Regulatory Authority of India (AERA) Consultation Paper on Review of Levy of Development Fee – IGI Airport New Delhi, Air India hereby submits its comments.

1. Any airport fee or tax gets transferred to the price of the ticket. The airline industry is in general opposed to aviation taxes which puts extra burden on the passengers. Continuation of high rate of fees leads to an increase of the costs of air travel and imposes a new barrier to the development of the aviation and tourism industries.
2. The audit carried out by Engineers India Ltd. and by KPMG needs to be taken into consideration and the exclusion suggested by them specially in regard to the ATC tower and upfront fee should be adhered to. The ATC tower cost should not form part of the project cost as the air traffic charge i.e route navigation and terminal navigation revenue accrues to Airports Authority of India and hence any cost towards the ATC tower should be incurred by AAI. In case AAI is getting the tower constructed by DIAL under an agreement then the cost of the same cannot be passed on to the passengers by way of Development Fee.
3. Air India feels that other alternative economic sources of funds should be explored to bridge the financing gap instead of burdening the passengers through continuation of DF beyond the earlier approved 3 years.
4. The financing gap envisaged by DIAL needs to be funded by the shareholder and the non-ability by the shareholder to incur such cost does not give the airport right to penalize the passengers with higher taxes and

resultantly penalizing the airlines since their passenger traffic gets affected on account of higher outgo of the passengers. The taxes at many airports are the same as the fare being charged by the airlines and this does not augur well for passenger growth.

5. In regard to DF charged by the airports, the airlines face problem with respect to collection of the charges and a lot of effort goes into its collection, accounting, remitting the same to the airports authorities etc. The collection charges provided presently is very low at Rs 5/- per pax and AERA should consider revising the same to a reasonable level at ad-valorem rate of 5%. It is further stated that the incentive for timely payment is only Rs 5/- per pax for UDF. While the penalty for delayed payment is 18% p.a.

   The credit period for remittance of PSF & DF/UDF to various authorities may kindly be increased to 45 days which at present is 15 days as majority of the sales by airlines is on credit amounting to nearly 80%. For example, the sale of April '11, 80% approximately, is realized by end of May'11. Thus, the DF/UDF for April should be made payable by 15th of June and so on.

6. DIAL has made an investment in setting up the airport and the lease is for a period of 60 years. The intention appears to be to recover the entire shortfall in a short time. It is opined that the development fee, if approved, should be charged over a period of at least 30 years with lower charge per pax and AERA could even consider to have the same charge for both domestic and international passengers. This would also obliviate the difference in charges for the domestic/international passengers as being pointed out by IATA and also not affect the passenger and also the airlines since the charge per pax. would be lower.

7. The handing of the project by DIAL by adopting a Design approach has resulted in huge escalation of the cost, a substantial portion of which is being proposed to be passed on to the passengers. AERA may in fact levy a penalty on DIAL for such increase in project cost rather than accepting most of the cost incurred by DIAL for the purpose of arriving at the total project cost. Such a measure of approving cost incurred much above the budgeted cost at this stage might set a wrong precedent to the other airport developers / other airports which are to be brought under the purview of PPP model and likely to be modernized. It should send out a message loud and clear that unreasonable escalation in the project cost under the umbrella of time constraint in completion of project may not be acceptable.

8. EIL's report highlights the increase in area of Terminal Building from approximately 4.5 lakh sq.mt worked out by MOTT Macdonald and as approved by MoCA, prior commencement of work in MDP to 5.53 lakh sq.mt actually constructed at site. The disallowance interalia has been

proposed for 8652 sq. mtrs. for the food court and retail area at CIP, office and hotel level. This area need not have been built as the food court and retail areas are already available on departure and arrival levels and the additional area at CIP, Office and Hotel levels and may not be used by the passengers. It is felt that this cost should not be included in the total cost of the project, especially in view of these additions were carried out without taking prior approval from either the Ministry or AAI.

9. Both KPMG and EIL have suggested exclusion of cost related to provisions amounting to Rs. 297 crores, which were not incurred as on 28.2.2010. The provisions include Rs. 100 crores towards contingencies, Rs. 27 crores for operational requirements and Rs. 170 crores for other pending works. AERA is of the opinion that since pre-dominant portion of the cost had already been incurred and the balance amount of Rs 11.66 crores would in probability have been spent thereafter, the cost of Rs. 297 crores towards provisions may tentatively be included in the project cost subject to the condition that DIAL produces evidence to this effect. The letter dated 31.07.2010 as referred to above is not annexed with the document and therefore, we are unable to comment on the acceptability of the same. It needs to be scrutinized and confirmed that this amount so spent has been utilized towards the project and proof of the same may be verified by AERA prior to allowing this amount of Rs. 297 to be part of total project cost.

10. AERA should firm up the Total Project Cost only after taking the following into consideration:
    a) As per clause 3.1.1 of State Support Agreement, "... The Upfront Fee and the Annual Fee paid/payable by the JVC to AAI under the OMDA shall not be included as part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same." Therefore this amount of Rs 150 crore should not be part of the total project cost.
    b) The External Commercial Borrowing value has appreciated from Rs. 1336 crore to Rs. 1616 crore due to exchange fluctuations. It is likely that at the time of repayment of these loans the amount may appreciate / depreciate due to exchange fluctuations. Therefore, prior settlement of this amount user consultation needs to be done.
    c) Since the lease deposit with DIAL is for substantial period, any settlement done in this regard should be with prior user consultation only.

Air India feels that all industry participants like airlines, airport operators, hospitality partners, AERA and all other stakeholders are primarily interested in development of the travel industry. Any efforts to lower travel cost, increase transparency and impose fair pricing system will benefit the air travel industry in a big way by contributing to reduction in air fares and ultimately benefit the end-consumer with quality service.