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22/9/10**COCHIN INTERNATIONAL AIRPORT LTD.**

CIAL/GH/AERA/2010/Consultation-06

27.09.2010

The Secretary
Airports Economic Regulatory Authority (AERA) of India
AERA Building, Administrative Complex,
Safdurjung Airport, New Delhi - 110 003.

23/9/10

Dear Sir,

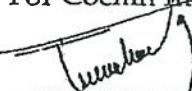
DSD-II

Sub: Response to AERA Consultation Paper 06/2010-11 on Revision of
Fuel Throughput Charges by Airport Operators
with effect from 1st April 2010

We forward herewith the Response of CIAL on AERA's Consultation Paper 06/2010-11 on
Revision of Fuel Throughput Charges by Airport Operators with effect from 1st April 2010.

Thanking you.

Yours faithfully,
For Cochin International Airport Limited


R.VENKITESWARAN
Executive Director (Finance) & Company Secretary

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Response to AERA Consultation Paper 06/2010-11 on Revision of Fuel Throughput Charges by Airport Operators with effect from 1st April 2010

CIAL welcomes the considered proposal of AERA in Consultation paper 06/2010-11 on Revision of Fuel Throughput charges by Airport Operators with effect from 1st April 2010 and for granting the request of CIAL for increase in throughput charges. We are also grateful for AERA's consideration for honouring the contractual commitments made between Service Provider & Airport Operator.

In this connection we would like to forward the following points for consideration and in support of the AERA's view.

- a) The Agreement between CIAL & BPCL for setting up the Fuel Hydrant Service at Cochin International Airport was a Purely Commercial Transaction which took place in May 1997 based on a tender for the interest free security deposit (IFSD). However, BPCL which submitted the IFSD informed that the same has to be converted as equity and the IFSD of BPCL was changed as equity on which BPCL gets dividend every year. So CIAL was adversely affected from the first instance itself.
- b) The Agreement between BPCL & CIAL provides for payment of throughput charges from the date of commencement and the rate was fixed as Rs.5/- per KL and further stipulated that as & when the Administered Pricing Mechanism (APM) for ATF has been dispensed with, CIAL can re-negotiate the throughput charges with BPCL for increasing the same. Even through APM for ATF was withdrawn in 2002, the rates were renegotiated only after several years and it may also be noticed that the throughput charges are the lowest in CIAL.
- c) The Commercial agreement for Fuel Hydrant facility at Cochin Airport & related Infrastructure for Fuel Hydrants was created by BPCL only after detailed feasibility study by the Service provider which has taken into consideration the long term expenditures including levies related to fuel supply and cashflow and its impact.
- d) It may be noted that the existence of Fuel Hydrant at an airport does not make refuelling Mandatory. Refuelling is an optional service to the Aircrafts landing at an airport and as the service is not forced on airlines, they are free to use the services from any airport, which invariably brings in competition, even when only a single service provider exists. So this is a market with elasticity & competition.
- e) The most important factor considered for Refuelling is PRICE OF ATF. If the price of ATF is NOT competitive, airlines prefer to carry the fuel for return flight also on board. Therefore, as Fuel is available at embarking & disembarking airports, oil companies need to compete with each other to offer the best price, resulting in perfect competition & even internationally.
- f) Sales Tax & statutory levies: Besides the basic cost of ATF, the sales tax & other levies differ from state to state. So Fuel Service Providers have sometimes lost edge of service due to such uncontrollable factors. Even these affect competition.

For Cochin International Airport Ltd.


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- g) Further the throughput charges to airports are a fraction of a percent and are comparatively so small amount that throughput charges do not have any substantial element to influence the ATF cost. (The throughput proposed at CIAL amounts only 0.2% of the cost of 1KL of ATF). So a marginal increase would not in any manner influence the fuel cost for service providers, airlines or the passengers.
- h) Taking the CIAL Scenario, even though BPCL has been granted the exclusive right for Fuel Hydrant Service Provider, BPCL under their national consensus has also granted opportunity to all oil public sector companies (IOCL & HPCL) to supply fuel through these hydrants. Incidentally total share of BPCL for fuel supply is less than IOCL even though they own the infrastructure, which is a good example of competition. BPCL may be taking service charges from other fuel service providers, for enjoying BPCL's infrastructure and supply of FUEL is purely a commercial activity rather than an essential service.
- i) Service providers utilises the land, infrastructure and other facilities of the airport operator and Airport Operator has to sacrifice that portion of land and apron and also has to maintain the area including fuel hydrant area which has cost / expenditure attached to it. Therefore, collection of throughput charges are justified on this account nationally and internationally.
- j) In the matter of offering of right to a Fuel service provider, this being a Commercial Transaction has to be guided by the sound financial practices and accordingly, the right is awarded based on the returns to airport operator. This is international and national practice and CIAL has followed the same, while offering to BPCL.
- k) As fuel service is an optional service which is not enforced on airlines and as fuel is available to aircrafts at many airports and as different service providers exist in different airports and as there is even international ATF availability, the price also has to be competitive to enable maximum sale and hence the price charged on these airlines by fuel companies based on their negotiations are irrespective of the other factors like royalty / throughput charges etc.
- l) Therefore, as this being a commercial transaction and as the fuel service is perfectly competitive and market elastic, it is our view that throughput charges on Fuel Service may not be regulated as this is market driven. This has also been the considered view of ICAO and Concession agreements decided it not to make it an aeronautical income.

However, as Fuel Service falls under "Regulated Service" as per AERA Act and as AERA's considered view is for regulation, we would request for a light touch regulation and also request that agreements which have existed even prior to the existence of AERA be honoured, as contrary decision would have adverse impact on the business models adopted by airport operator and service provider.

For Cochin International Airport Ltd.


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(Executive Director (Finance)
& Company Secretary)