



5 July 2024

Director Policy & Statistics,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110003,
INDIA

Via email: director-ps@aera.gov.in; rajan.gupta1@aera.gov.in
Cc: secretary@aera.gov.in

Dear Sir,

IATA COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR LOKPRIYA GOPINATH BORDOLOI INTERNATIONAL AIRPORT (GAU) FOR THE THIRD CONTROL PERIOD

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 320 airlines or 83% of the world's air traffic. Many of our member airlines operate in the Indian market including Air India, IndiGo, SpiceJet, and Vistara. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

We appreciate and thank AERA for its due diligence in reviewing the proposal by the Airport Operator for Lokpriya Bordoloi International Airport. We would like to highlight the below-stated points:

True-up for 2nd control period (AAI)

- IATA agrees with AERA correcting AAI's asset allocation by using the independent study results, including the reallocation of common O&M expenses.
- We also appreciate AERA having considered ICAO's principle of 'Cost-relatedness' to rationalise the high CHQ & RHQ expenses allocated to the airport. We agree with the view that the users should pay only for the services availed by them.
- IATA also supports AERA's view that space rentals from agencies providing aeronautical services should be treated as Aeronautical Revenue. Other revenues such as Hanger Rent and Flight Catering should be treated similarly as these services are to serve aeronautical users/activities.
 - On the same principles, royalties paid to the airport operator by aeronautical service providers with the cost passed on to the airlines, should also be classified as Aeronautical Revenue.

Fair Rate of Return

The Airport Operator has proposed a FROR of 14.76%, and although we appreciate the Authority reducing it to 12.21%, we believe that this is still on the higher side and does not reflect the business risk assumed by the airport operator, given the true-up approach adopted by AERA.



Non-Aeronautical revenue (NAR)

- NAR projected by the Airport Operator is 25% lower compared to the NAR generated in the previous control period when the airport was operated by the AAI. It should be noted that the previous control period includes 2 years which were severely impacted by COVID-19, at an airport which has major footfall of tourists having a natural propensity to spend at airports.

As seen in the case of AMD, LKO and TRV airport tariff proposals submitted by Adani Airports earlier, the NAR which is meant to cross-subsidize the Aeronautical charges, are similarly under-developed and under-projected in the case of GAU as well. AERA has correctly highlighted that the NAR projected is lower than when the airport was under AAI; and that the increase in non-aero activities with the terminal expansion has not been factored in. We appreciate AERA for closely overseeing this aspect while making the determination.

- Additionally, we once again highlight that the Airport operator GIAL has entered into a Master Services Agreement (MSA) with Adani Airport Holdings (AAHL), which is supposed to pay the GIAL a minimum guarantee amount of Rs. 21 Cr or 10% of the 'Gross Revenue', whichever is higher. The 'Gross Revenue' referred to in the MSA is actually the NAR of the airport – and under the hybrid till mechanism, 30% (and not 10%, or even an absolute amount of Rs. 21 Cr) of the NAR is to be used to offset aeronautical costs. While the Airport Operator's submission makes a mention of 'Revenue from Master Service Agreement', the component necessary for tariff determination purposes has to be 30% of total NAR; and not 30% of the 10% MSA Revenue Share (30% of 10% of total NAR is in fact only 3% of the total NAR earned). The current arrangement of including a Master Concessionaire between the NAR flowing to the Airport Operator, significantly reduces the level of effective NAR for the tariff determination by AERA and cannot be justified.
- IATA is concerned with the extremely restrictive criteria for bids for the Master Services Agreement which resulted in only 2 bidders, one of them being a related party. We appreciate AERA for highlighting the restrictive technical eligibility criteria of prior experience of 100,000 sqm of commercial space development/management, as well as the restrictive financial eligibility criteria.
- IATA urges the Authority to correct the Airport Operator's understanding by explicitly stating/confirming in the final Order that:
 - 30% (in adherence to the hybrid till policy, and not any lower) of the total NAR of the Airport is to be recognized in offsetting aeronautical costs; and
 - The level of 'Revenue from Master Service Agreement' earned by the Airport Operator is not material to tariff determination. This will help bring back the NAR from its current artificially low levels in the airport's current understanding.
- IATA would also expect that any shortfall in the NAR will NOT be trued up in the next control period.

Tariff Card

- A significant increase has been proposed by the Airport Operator in its Tariff Card, both on landing & parking charges. Significant Capex additions in the 3rd Control Period are slated particularly from FY25/26 with the addition of the new terminal, runway, taxiway and apron, boundary wall, access



road etc. It is important to ensure affordability while delivering the required capacity and service levels through stronger partnerships with airport users such as airlines etc.

- The UDF too has increased significantly. However, feedback from the Airport Users community in GAU suggests that the proposed tariff increase does not correlate to any facility enhancement at the existing Terminal 1.
- We request that AERA adopts the same approach as in the determination for other airports by moderating the increases to facilitate recovery in traffic and consider a significant reduction & to rationalize the Airport's current proposal for landing & parking and UDF charges.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Amitabh Khosla', written over a light blue horizontal line.

Amitabh KHOSLA
Country Director - India
khoslaa@iata.org

cc Richard Tan, IATA Regional Manager Operations, Safety and Security – Asia Pacific