



**WORKING PAPER**

**ASSEMBLY — 39TH SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 40: Economics of Airports and Air Navigation Services — Policy**

**ECONOMIC VIABILITY OF INDIAN AIRPORTS AND THE JUSTIFIABLE NEED FOR CONTINUATION OF CROSS SUBSIDIZATION**

(Presented by India)

**EXECUTIVE SUMMARY**

This paper presents India's perspective on the viability of management of Indian Airports, which is in line with the provisions of Doc 9562, *Airport Economics Manual*, especially Chapter 2 — Ownership, Control and Governance of Airports, with some critical thesis, antithesis and conclusion on cross subsidization. This report also highlights the fact that airports within the State, which provides for regional connectivity and may serve as alternate aerodromes, may be non-economically viable but necessarily deemed as a part of an integrated air transport network for safety or socio-economic reasons which is covered by ICAO's policies and guidance material in this context.

**Action:** The Assembly is invited to:

- a) endorse the views of India as a State, similar to several States in agreement, to continue to enshrine the principles of cross subsidization across an airport network of airports of a State, since that is an inescapable reality and absolute necessity in managing non-viable airports; and
- b) direct the Airport Economics Panel (AEP) to provide elaborate guidelines on global best practices on the principles of economic cross subsidization across a State Airport Network.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective D — <i>Economic Development of Air Transport</i>
<i>Financial implications:</i>	Not applicable
<i>References:</i>	ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082) Airport Economics Manual (Doc 9562) Manual on Air Navigation Services Economics (Doc 9161) Report of the Conference on the Economics of Airports and Air Navigation Services – CEANS (Doc 9980) WG 4 Draft a Report on how the existing guidance material should be used in the context of non-economically viable airports

## 1. INTRODUCTION

1.1 India has a mix of airports owned by various categories of airport operators' viz., Government, Private & Public Private Partnership (PPP) and Public sector enterprise. Airports Authority of India (AAI), a Government of India owned Public Service Enterprise (PSE), owns and/or operates 125 airports, out of which 26 airports are civil enclaves' joint user civil defence aerodromes, 68 airports are operational and the rest 30 are non-operational. The National Civil Aviation Policy 2016 (NCAP) of Government of India (GOI) accords a very high priority to regional connectivity which is reflected in its vision and mission. The Mission of the NCAP 2016 is to "Provide safe, secure, affordable and sustainable air travel for passengers and air transportation of cargo with access to various parts of India and the world." The Vision is "To create an eco-system to make flying affordable for the masses and to enable 30 crore domestic ticketing by 2022 and 50 crore by 2027, and international ticketing to increase to 20 crore by 2027. Similarly, cargo volumes should increase to 10 million tonnes by 2027.

1.2 The Indian scenario is unique and may find a few parallels across the world. India has established a separate Airport Economic Regulatory Authority (AERA) in 2009, in adherence to ICAO's Policies on Charges for Airports and Air Navigation Services, enshrined in Doc 9082, and taking into account the guidance provided by the Airport Economics Manual (Doc 9562), para. 1.14 refers. AERA regulates the tariffs in respect of major airports which has, or is designated to have, annual passenger throughput in excess of one and a half million. The tariffs in respect of other airports are regulated by Government of India (GOI) through its Ministry of Civil Aviation (MOCA).

1.3 There are only 5 per cent of airports which are profitable and the rest of them are loss making airports. The Airports Authority of India (AAI) has undertaken the modernization of Delhi and Mumbai airports through public-private partnership (PPP) mode and has handed over these two airports on long term lease of 30 years +30 years for development. About 30 per cent of the revenue of AAI is from leasing of airports viz., Delhi and Mumbai and the rest of the revenue is from provision of both Air Navigation Services and Airport services. AAI is managing its finances from its internal resources with a minimal amount of debt. The leasing income and the four profit making airports are used in offsetting the loss making airports. Government subsidy is granted to AAI only for North East from the North East council to fund some capital projects in the North East airports and for some non-viable airports as decided by MOCA. However, in spite of the grant by the Government for such airports, the airports continue to be non-viable.

## 2. DISCUSSION

2.1 Out of the Operational airports, originally 11 airports were designated as major airports as their passenger throughput was in excess of 1.5 million per annum and based on the passenger details of 2015-16, another 6 airports have become major airports and their charges will be regulated by AERA in accordance with ICAO's policies as stated in Section II, paragraph 2 i) Doc 9082: "The cost to be allocated is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration. Consistent with the form of economic oversight adopted, these costs may be offset by non-aeronautical revenues." The Regulator had in its original philosophy envisaged to follow the price cap mechanism, single till regime for tariff determination for all major airports (except Delhi & Mumbai). However, the GOI in the NCAP 2016 to ensure uniformity and level playing field across various operators, has decided that the future tariffs will be calculated on hybrid till basis unless otherwise specified for any project being bid out in future. 30 per cent of non-aeronautical revenue will be used to cross-subsidize aeronautical charges. In case the tariff in one particular year or contractual period

turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future.

2.2 The airports other than those classified as major vary largely in terms of scale of operations and growth potential, which is reflected in the volume of domestic and international passenger traffic and aircraft movement at these airports. There are various categories of non-major airports ranging from fast growing, moderate growth, airports with very low operations and growth prospects and also non-operational airports. However AAI being a Government owned Public sector entity is managing these non-viable airports due to socio-economic factors, due to demand to establish airports in small cities to encourage investments, tourism and improve regional connectivity although there are issues of viability of managing a number of airports. Keeping in view the wide range of non-major airports in the portfolio of India, it may not be logical and socially justifiable to have a uniform tariff structure for all such airports.

2.3 The Government is considering clustering of non major airports based on the current passenger movement and growth at the airports. This is due to the fact that considerable time and costs are involved in determining and monitoring the tariffs at these airports individually. Also it may not be economically viable to determine tariff individually for each of the airports in the clusters. Airports in a cluster should follow a uniform tariff approach. However, AAI at present is maintaining uniform charges across the airport network, although the airports have differential cost structures and capex which means that there is an element of cross subsidization. Even if these airports had to simply follow a cost related principle, the tariffs would be much higher in reality and may be deterrent to the passengers and airlines to operate at these airports. At the same time, the airports cannot be closed due to various socio economic factors. AAI charges are at present quite low and AAI is not able to recover even the operating costs at these airports. Whereas fixed operating expenditure in the airports can only be offset by revenues and reasonable return on investment, low passenger movements directly results in lesser aeronautical revenue and due to fewer footfalls it also indirectly results in low non aeronautical revenues.

2.4 Cross subsidization as per ICAO in the Indian aviation scenario would mean that the airport charges at the profitable airports under AAI may be increased to subsidize the non-profitable airports. Normally the principle of cross subsidization should be discouraged as it is against the basic principle of equity to users. However as AAI is unable to recover its cost in respect of other airports, it is in fact providing subsidy to users by cross subsidizing from its common pool of resources including leasing income from PPP airports. Also, AERA determines the tariff of all major airports on stand-alone basis on rate of return model. So the major airports do not generate enough surplus funds to sustain the other non-viable airports. Hence AAI has to make up the shortfall/losses in other non-profitable airports from other source of revenue viz., non-aeronautical revenue and leasing income. But this process of cross subsidization may not be long enduring as the other source of income may not be long lasting.

2.5 Since India follows an airport network model, it is inevitable to employ the principle of “cross-subsidization”. Whereas Doc 9082, Section II, paragraphs 2 i), ii) and iii) provide a list of principles of cost basis on which airport charges should be levied, discourages the concept of cross subsidization *per se*, ICAO Doc 9562 para 2.37 clearly recognizes that “in some States [cross subsidies from profitable to non-profitable airports] may be the only way to maintain airports that serve, for example, isolated regions.”

2.6 ICAO Doc 9562 para 2.39 summarises effectively that, “...an equilibrium should be sought between the interests of airports and users, specifically including those of current and future end-users; and that in cases where cross subsidization within a national network is applied, full transparency is necessary. It is for States to decide on what is in their best interest, taking the above advantages and disadvantages and their particular circumstances into account. In this respect, States should consider

paragraph 2 ix) in Section II of Doc 9082, which says that a State or a charging authority may recover less than its full costs in recognition of local, regional or national benefits received.” In line with this, GOI in the NCAP 2016 has given thrust to Regional Connectivity Scheme which will be implemented by way of i) Revival of unserved or underserved airports/routes; ii) Concessions to different stakeholders; and iii) Viability Gap Funding by the Government to the airlines.

2.7 India strongly endorses this view and urges all States to subscribe to the spirit behind this conclusion. India, in strict compliance with Article 15 of the Chicago Convention, applies uniform conditions to the use of airports and air navigation services by Indian registered aircraft and aircraft registered in other States and imposes uniform charges without discrimination.

2.8 India supports the conclusion at the Fifth Joint Meeting of the Airport Economics Panel and the Air Navigation Services Economics Panel (AEP-ANSEP/5) held in Montréal from 19 to 21 May 2015, to establish a working group which would draft a report on how existing guidance could be used in the context of economically non-viable airports that are necessary as part of an integrated air transport network for safety or socio-economic reasons (Recommendation AEP-ANSEP/5-3/3 refers).

### 3. CONCLUSION

3.1 From the discussion, the following conclusions may be drawn:

- c) though in principle, it is acceptable that all airports have to be self-sustainable and the tariff should be determined individually, it may not be possible in case of large and developing country and economy. In a large country and developing economy, the tariff needs to be regulated taking into account the various social and economic factors like Regional development, tourism, strategic location, absence of alternative transport system (hilly area) etc.;
- d) a country should have only one regulator to regulate the tariff of all the operators as it will enable the regulator to look into all aspects of tariff determination for all airport operators including private, Government, Public private partnership etc.; and
- e) further action should be taken by ICAO expeditiously on the AEP-ANSEP-P/5-3/3 recommendation.