



Case Study

on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers

India

Background

The Government of India passed the International Airport Authority Act in 1971, which created the International Airports Authority of India, in charge of planning, managing, and developing India's four international airports. Another authority, the National Airport Authority was created in 1986 to take over the management of India's domestic airports, and develop and operate them on corporate principles.

The aviation sector has rapidly grown over the past years in India, putting new development constraints on the country's old and congested airports. In addition, there was a need for better coordination between the actions and policies of the two airport authorities. The National Airports Authority and the International Airports Authority of India were merged in 1995 under the single Airports Authority of India (AAI), in charge of building, managing and developing Indian civil aviation infrastructure, managing Indian airspace, and providing en route navigation facilities to aircraft flying in Indian airspace. A Domestic Wing was constituted to manage domestic airports, while an International Wing has assumed the responsibility of the five international airports (Mumbai, Delhi, Chennai, Kolkata, and Thiruvananthapuram). The Government of India also allowed the private sector to set up air cargo complexes in 1996 and invited domestic and foreign investors to participate in the development of airport infrastructure at some selected airport sites.

The air navigation services are also provided by the Airports Authority of India, which operates five flight information regions (Delhi, Mumbai, Chennai, Kolkata, and Guwahati).

Commercialization/privatization: Airports

The international airport of Kochi was the first to be built in a public-private partnership (PPP) and owned by a public limited company created by the State Government of Kerala in 1994. The Government of Kerala currently owns about one third of the share of the company, while several local, national (such as Air India) and international business groups own a significant share of the airport operator. Following this initiative, the Government of India passed a legislative amendment in 2003 allowing the private sector to enter the field of airport development: 100 per cent foreign direct investment was permitted for greenfield airports.

In 2006, the ownership and the management of Mumbai and Delhi airports were transferred to Mumbai International Airport Limited (MIAL) and New Delhi International Airport Private Limited (DIAL). Subsequently, two consortia led by India's infrastructure holding company GMR were granted 30-year concessions to operate each airport under a PPP. In both cases, the GMR-led consortium holds 74 per cent of the airport operators share while AAI retains the remaining 24 per cent. In addition, MIAL and DIAL are requested to pay AAI, in consideration for the grant of concession, an annual fee of respectively 38.7 per cent and 45 per cent of their revenues. With respect to greenfield airports, Hyderabad International Airport Limited (GHIAL) was established with the participation of the Government of Andhra Pradesh (13 per cent), AAI (13 per cent), GMR (63 per cent) and Malaysia Airports Holdings Berhad (MAHB, 11 per cent). It was granted a 30-year concession and it is requested to pay to the Government of India an annual fee amounting to 4 per cent in consideration for the grant of

concession. Bengaluru Airport Limited (BIAL) was established with the participation of Karnataka State Industrial Investment and Development Corporation Limited (13 per cent), AAI (13 per cent), Siemens Project Ventures GmbH (40 per cent), Flughafen Zurich AG (17 per cent) and Larsen & Toubro Limited (17 per cent). It was granted a 30-year concession and it is requested to pay to the Government of India an annual fee amounting to 4 per cent in consideration for the grant of concession. While six other airports were granted approval to be constructed and financed in PPP, all other airports are fully owned and operated by AAI.

Commercialization/privatization: ANSP

The provision of air navigation services was neither corporatized, privatized nor commercialized. The AAI and other government agencies continue to hold under their responsibility the control functions on security issues, air navigation services, aeronautical regulation and services of communications, meteorology, search and rescue and, in general, the technical aspects of air navigation services. At the airport level, airport operators employ and supervise airport personnel and subcontractors, but they are not responsible for the maintenance and operation of air traffic operations or landing systems, which are handled by the AAI and government agencies.

Nevertheless, the issue of separating the provision of air navigation services from the provision of airport services has been pending for a long time. It was first proposed in 1976, and the Naresh Chandra Committee, which was appointed in 2002 to examine various corporate issues, recommended to the Ministry of Finance and Company Affairs to set up a separate entity in charge of air navigation services. AAI and the Government of India are currently giving full consideration to a new report released in May 2012, which suggests hiving off air navigation services from airport operation.

Economic oversight: Airports

The Naresh Chandra Committee also examined the economic oversight of airports. In its report to the Ministry of Finance and Company Affairs, the Committee pointed airports specifically, suggesting to separate completely the economic oversight functions, for example through the creation of a new state agency. It also suggested to revise airport charges in order to bring them in line with international practices and standards.

A few years later, the Parliament of India passed the Airports Economic Regulatory Authority of India Act, which created the Airports Economic Regulatory Authority (AERA) in 2008. The main function of the AERA is to regulate airports handling (or designed to handle) more than 1.5 million passengers per year (concerned airports are: Mumbai, Delhi, Chennai, Bengaluru, Kolkata, Hyderabad, Kochi, Ahmedabad, Goa, Thiruvananthapuram, Pune and Calicut), and to monitor their performance standards.

The AERA is thus in charge of establishing user charges with application of the single-till principle, for a five-year period, by taking into account the following elements: the capital expenditure incurred and timely investment in improvement of airport facilities; the service provided and its quality and other relevant factors; the cost for improving efficiency; economic and viable operation of major airports; revenue received from services other than aeronautical services; the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; and any other relevant factors. On 24 April 2012, AERA approved a 345 per cent increase in charges at Delhi Airport (DIAL requested a 774 per cent hike). On 16 January 2013, it approved a 154 per cent increase in charges at Mumbai Airport (MIAL requested a 872 per cent hike).

It should nevertheless be noted that the single-till principle has been challenged in the Appellate Tribunal by airport operators and a decision is still pending. Furthermore, the AERA

order approving the increase in charges at Delhi and Mumbai airports have also been challenged by their users. It will be up to the Airport Economic Regulatory Authority Appellate Tribunal (AERAAT) to settle the dispute.

Other AAI airports are regulated by the Ministry of Civil Aviation, and operate under the single-till. AAI has the obligation to keep operating non-economically viable airports that are necessary for socio-economic purposes: to a certain extent, non-profitable airports are cross-subsidized by the profitable ones. At present, AAI is levying airport charges which are different for international, domestic and civil enclaves; however, charges are uniform for all airports within the same group. After an 8-year gap, the Ministry of Civil Aviation allowed an upward revision of 10 per cent in aeronautical charges in the year 2009.

Economic oversight: ANSP

AAI continues to regulate and set air navigation services charges under a cost-plus fair rate of return based regulation.

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