

## **AIRPORT MODERNISATION IN INDIA**

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- With phenomenal growth in air traffic, the importance of air transport in the whole economy has increased considerably. Its role in transportation of people, cargo and creation of jobs needs no emphasis. Airports have become the key nodes in the production and commercial systems and engines of local economic development. With more and more business taking place around these airports, a new urban form is fast emerging. Civil Aviation contributes to prosperity and creates opportunities for employment, business, commerce, trade and tourism industry.
- Aviation infrastructure, especially airport facilities and air navigation services, have significantly expanded and improved to meet the increasing demands. There has been some time lag between supply and demand for infrastructure facilities. Lack of financial resources has been an important factor in retarding expansion of aviation infrastructure besides environmental constraints in recent times. It is, however, recognised that airports not only provide infrastructure for airlines but also contribute to the economy of the region. Airport management have to address the emerging issues of airport restructuring, safety and security.

- Recognising these trends, Government of India has decided to make some far reaching changes in the system. The highest priority is being given to the development of airport infrastructure with emphasis on providing efficient and value added services at reasonable prices. Hitherto all airports in India were under state control. Government has now committed itself to deregulation of airport operations in line with international trends. It is felt imperative to invite private sector to leverage modern technology and management expertise in this area. Private sector, realizing the potential for growth that the airport business offers, is showing keen interest in airport investments.
- India has a federal structure and civil aviation is included in the Central List in the Constitution of India. The subject of Civil Aviation, therefore, comes within the legislative competence of Indian Parliament. Aircraft Act regulates civil aviation in the country and Aircraft Rules provide the basic legislative framework for the sector.
- Until the formation of International Airports Authority in 1972 and National Airports Authority of India in 1986 all airports were managed by Government of India directly. With a view to professionalising the management of international airports, International Airports Authority of India was created in 1972 and given the responsibility for the international airports at Mumbai, Delhi, Kolkata and Chennai. Based on the positive experience of this Authority, National Airports Authority of India was set up in 1986 to manage and operate the remaining government airports. This was followed by another restructuring in 1995 when both these authorities

were merged to form Airports Authority of India. The primary objective of the merger was to accelerate development, expansion and modernization of operational, terminal and cargo facilities at all airports in the country in conformity with international standards. AAI now controls 124 airports in the country including international airports, domestic airports and the civil enclaves in some of the Defence airports. Airports Authority of India is governed by AAI Act, 1994. In addition to the airports under AAI, there are several airstrips all over the country which are owned and managed by State Governments or private sector.

- Some data of the present airport operations in India are given below:
    - Total number of airports where scheduled airlines operate are 68.
- This number includes Cochin and the civil enclaves in Defence airports.

#### **Aircraft Movements (in numbers)**

<b>Year</b>	<b>International</b>	<b>Domestic</b>	<b>Grand Total</b>
1999-2000	99701	368015	467716
2000-2001	103211	386575	489786
2001-2002	107823	402108	509931
2002-2003			560578

#### **Passenger (in numbers)**

<b>Year</b>	<b>International</b>	<b>Domestic</b>	<b>Grand Total</b>
1999-2000	13293027	25741521	39034548
2000-2001	14009052	28017568	42026620

2001-2002	13624712	26358627	39983339
2002-03			43988321

**Cargo (in tones)**

<b>Year</b>	<b>International</b>	<b>Domestic</b>	<b>Grand Total</b>
1999-2000	531844	265570	797414
2000-2001	557772	288373	846145
2001-2002	560226	294050	854276
2002-2003			982464

- Directorate General of Civil Aviation is the authority responsible for safety and security of aircraft operations in India. At present there is no economic regulator other than Ministry of Civil Aviation. It is, however, proposed to set up an economic regulatory mechanism as private sector starts operating airports. Security matters are overseen by Bureau of Civil Aviation Security while Air Traffic Control in the whole country is managed by AAI.
- As development of airport infrastructure has become the major thrust area now, Government of India has taken a number of initiatives to encourage private sector participation in development, modernization and upgradation of airport infrastructure:
  - AAI Act, 1994 was amended by Indian Parliament recently to facilitate private sector participation in development of greenfield airports. Government will have no role in the management of such private sector airports except for security and Air Traffic Control. The amendment also provides for levying 'Advance

Development Fee’ at existing airports to finance new airports in lieu of the existing one and ‘Users Fee’ at the new airports.

- Government of India formulated a new national policy on airport infrastructure in 1997 to provide a broad framework for development of airport infrastructure with public and private sector participation.
  - This Policy provides for foreign equity participation in airport projects upto 74 % with automatic approvals and 100% on case-to-case basis. Foreign airports authorities can also participate. Private sector participation is encouraged in the development of cargo infrastructure including satellite freight cities.
  - The policy permits development of Greenfield Airports where an existing airport is unable to meet the projected requirements of traffic or a new focal point of traffic emerges with sufficient viability. It can be allowed both as replacement for an existing airport or for simultaneous operations.
- Under the new policy framework, some major initiatives have been taken for development of Greenfield airports by some State Governments.
- At Cochin, a new greenfield international airport has been built. It was opened to traffic in 1999. The airport was built by a public limited company promoted by the state government. While state government is an important shareholder in the company, private parties including non-resident Indians (NRI) and certain service providers like Air India, Bharat Petroleum, State Bank of

Travancore and Federal Bank are the other shareholders. The largest shareholding is by about 10,000 NRIs living in 30 countries. Some loans were raised from banks and interest-free deposits were mobilized from the service providers and concessionaires.

- Another Greenfield international airport is being developed at Bangalore to cater to the traffic handled by the existing Bangalore airport. The present Bangalore airport is owned by Hindustan Aeronautics Limited (Ministry of Defence) and has very limited capacity for further expansion. The catchment area of the airport is fast growing, especially because of the development of computer software industry in Bangalore. The existing airport handled about 2.4 million passengers and 59, 0000 tonnes of cargo in 2000-01. On the opening of the new airport, the traffic is likely to increase to about 4 million passengers and one million tones of cargo. The new Bangalore airport is a joint venture project in which a private sector consortium will have 74 per cent equity with the balance being shared equally by Karnataka State Industrial Development Corporation and Airports Authority of India. The private consortium is led by Siemens of Germany.
- Another Greenfield airport is being developed in Hyderabad. In this project also 74% of the equity is held by a private consortium.
- Some of the other places where Greenfield airports are being conceptualized include Goa and Pune.

In all these airports, private sector partner will have majority stake with operational and management control. Government of India has recently formulated airport specific and general models of Concession Agreement.

- Another major initiative under the new policy is the decision to induct private sector, including foreign investors, for expanding and modernizing the existing AAI airports including those in the metro cities of Delhi, Mumbai, Chennai and Kolkata. The restructuring of Delhi and Mumbai airports are being taken up at the first instance. Government is committed to provide a transparent and fair bidding process while privatizing the AAI airports. The process is likely to begin very shortly and the private sector partner for each of these projects will be selected on the basis of global bids. The proposed restructuring of Delhi and Mumbai airports provides attractive and strategic opportunities to international and domestic players in this sector. The airports have good traffic base and a track record of uninterrupted operations with unique opportunities for maximization of commercial revenue streams from non-aeronautical sources.
- Some strong fundamentals supporting modernization of Indian airports with private sector participation are:
  1. Air Traffic Growth: Asia-Pacific growth is expected to outperform the global average over the next decade and India is also expected to benefit from this.
  2. Regulations: Pricing regulation and structure, transparency and the degree and form of government control are key drivers of airports valuation.

- a. The concept of dual till agreed to by GOI in the case of BIAL project ensures that the airport investor has greater flexibility to expand non-aeronautical/ commercial operations, which improves airport services and reduces pressure for increasing airport charges.
- b. The process of selection of the investor through a global competitive bidding process is completely transparent.

3.Hub Status: The geographical location of India is conducive for airports in India to develop into Hub airports.

4.Stable economic environment: The Indian economy has, since the start of liberalization in the early 1990's, grown steadily. The strong GDP growth has been accompanied by increasing FDI, an information technology boom and expansion of industrial and services sector. The country offers a well established legal, accounting and financial system and a vibrant capital market. Government of India is committed to address the concerns of private airport investors and ensure transparency in its policy. Government will set up a proper regulatory framework for determining charges for recovery of aeronautical charges. A dual till regime to encourage private sector to invest in non-aeronautical activities is also taking shape. It will be the Government's endeavour to ensure that the investor has total operational and managerial control in day to day affairs within the overall legal framework.