



ASSOCIATION OF PRIVATE AIRPORT OPERATORS

# Monthly Newsletter

## July 2013

### Members:

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**Disclaimer:** The information contained in this newsletter has been collected from news/articles appeared in various newspapers and other publications and also collected from respective airport operators. APAO makes no warranties as to the accuracy or authenticity or completeness of the information.

## ABBREVIATIONS

AAI	Airports Authority of India
AERA	Airports Economic Regulatory Authority of India
ATF	Aviation Turbine Fuel
BIAL	Bangalore International Airport Limited
CIAL	Cochin International Airport Limited
CPL	Commercial Pilot License
CSIA	Chhatrapati Shivaji International Airport, Mumbai
DGCA	Directorate General of Civil Aviation
DIAL	Delhi International Airport Limited
DRDO	Defence Research and Development Organisation
GHIAL	GMR Hyderabad International Airport Limited
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
IGIA	Indira Gandhi International Airport, New Delhi
MIAL	Mumbai International Airport Limited
MoCA	Ministry of Civil Aviation
MRO	Maintenance Repair Overhaul
PPP	Public-Private Partnership
RGIA	Rajiv Gandhi International Airport, Hyderabad

## 1. AVIATION SECTOR<sup>1</sup>

- AAI has decided to issue of tax-free bonds worth Rs 1,000 crore in the current financial year to develop 50 low-cost airports in the country.
- AAI is planning to offer discounts on landing and parking charges to any carrier connecting airports in small towns where new airports have come up or the existing ones upgraded, in order to build traffic potential there. AAI is considering offering the discounts on a graded basis, say for a period of three years. Such a move would be a major saver for the airlines as landing and parking charges constitute 10-12% of their cost of operations. As per the present proposal, AAI is offering an airline a 75% discount on landing and parking charges in the first year of operation if enough flights were flown from these non-metro airports. In the second year, this discount could be 50% and 25% in the third year. AAI would start charging full tariff from the fourth year. These discounts are aimed at promoting regional airports and new routes. The proposal to offer such discounts needs clearance from MoCA.
- The inter-ministerial group on 4th July gave its nod to privatise the older terminals by bringing in a joint-venture partner to manage operations at Kolkata and Chennai airports, much in line with what it has done in Delhi and Mumbai. The PPP contracts will be given out on an asset lease model basis. In other words, the concessionaires will be paying market rates for leasing the airport, to be adjusted against the revenue share.

Airports identified for privatization is as follows:

<b>AIRPORTS ON LIST FOR PRIVATISATION</b>		
Location	Passenger traffic 2012-13 (in m)	Aircraft movement 2012-13
Chennai	12.77	117,418
Kolkata	10.06	93,605
Ahmedabad	4.16	38,289
Goa	3.54	26,804
Trivandrum	2.83	24,803
Guwahati	2.07	26,938
Lucknow	2.02	18,395
Jaipur	1.86	18,260
Bhubaneswar	1.38	14,220
Coimbatore	1.29	12,852
Mangalore	1.04	9,906
Trichy	0.87	7,889
Varanasi	0.8	7,654
<b>METRO AIRPORTS ALREADY PRIVATISED</b>		
Delhi	34.36	280,713
Mumbai	30.2	244,499
Bangalore	11.99	104,642
Hyderabad	8.3	90,151

Source: Financial Express, Delhi, 4<sup>th</sup> July 2013

<sup>1</sup> Newspaper Clippings

4. A high-level committee on manufacturing headed by Prime Minister Manmohan Singh on 9th July cleared the Rs 7,555 crore project to build 90 seater aircraft. The design and development of the aircraft is expected to cost Rs 4,355 crore and series production would entail a further Rs 3,200 crore. The aircraft is to be built through a collaborative venture of state-owned Hindustan Aeronautics Limited, National Aerospace Laboratories, the Council for Scientific and Industrial Research and DRDO. The high-level committee decided to set up a steering group to prepare a programme for the civil aircraft, building on defence offsets and using globally available engines.
5. MoCA has turned down a proposal by DGCA to make it mandatory for airlines to hire two new local pilots for every expatriate on their payrolls. India has about 4,000 unemployed CPL holders. The number of expat pilots in the country stand at around 300, down from 800 in 2010. The total number of pilots in the country is 3,800, out of which 25% are commanders.
6. Turkish Airlines has sought a five-fold increase in its current flying rights of about 4,000 seats a week to over 20,000, along with a nod to fly to more Indian cities.
7. DGCA has approved a Flight Simulation Technique Centre as a training organisation for the Airbus 320 and Boeing 737 NG family of airplanes. Flight Simulation Technique Centre is a joint venture company with SIM Industries BV, Netherlands, a Lockheed Martin Company.
8. The Union Cabinet on 11th July approved the proposal for setting up of a National Aviation University in the name of Rajiv Gandhi National Aviation University at the district of Rae Bareilly, U.P. as a Central University. The Cabinet also approved the proposal to introduce the Rajiv Gandhi National Aviation University Bill, 2013 in the Parliament and to create a post of Vice Chancellor (with pay scales on the pattern of Central Universities) by selection through a Search and Selection Committee headed by Cabinet Secretary with members representing Ministries of Civil Aviation, Personnel & Training and Human Resource Development and for creation of a temporary post in the grade of Joint secretary to Government of India for the position of Project Director which would be filled up on deputation basis. The 'Rajiv Gandhi National Aviation University' will be an autonomous body under the administrative control of MoCA with an estimated Central Government's funding of Rs 202 crore in Phase-1 (2013-14 to 2018-19) on the 26.35 acres of land available with Indira Gandhi Rashtriya Udan Academy.

The Union Cabinet on 11th July also cleared the proposal to replace the DGCA with the Civil Aviation Authority, which will have full operational and financial autonomy on the lines of the US Federation Aviation Authority. The draft legislation will be presented in the monsoon session of Parliament. The cost of creating and running Civil Aviation Authority is estimated to be around Rs 112 crore a year. The sources of the funding will be from passengers who would be charged Rs 5 or Rs 10 which would add up to at least Rs 50 crore a year, sharing of the revenue with AAI for air navigation services and fees for licensing air traffic control services - 1% of the total collections from air navigation service fees, which will total Rs 18 crore a year and Rs 50 crore a year from licence fees will be collected for the Civil Aviation Authority.

9. The European Union will levy a 4.7% duty on jet fuel imports from India in addition to cargos from the Middle East increasing risks of price rises for European airlines. The European Union said last month it would impose the duty on imports from Gulf Cooperation Council states starting January 1, 2014 after removing the group from the generalised scheme of

preferences, which offers trade advantages to developing economies. India has not been removed from the generalised scheme of preferences, but the European Union will remove the waiver because its oil products have become competitive in global markets.

10. Union Minister of State for Civil Aviation K.C. Venugopal on 13<sup>th</sup> July said that the Madurai airport would be expanded further to receive bigger aircraft in another one or two years. He further said that there was a plan to further expand the Tiruchirappalli airport also, if the Tamil Nadu Government sanctioned more lands for it.
11. MoCA has decided that Aerodrome Entry Permits would be issued to high commissions or embassies of other countries only on a reciprocal basis after several incidents of denial of protocol to Indian dignitaries at foreign airports. MoCA has also been proposed that access of Indian VIPs to airports be restricted, preferably only up to the terminal building.
12. According to a Customer Satisfaction Survey conducted by AAI between January and June 2013 in 52 small airports having annual passenger load of less than 15 lakh, 14 airports, including Mangalore, shared space in the Top 10. Of the 14, six are in the north, five in the south, two in the east and one in the west. The airports were evaluated on 33 parameters, including availability of baggage trolleys, parking facility, waiting time in check-in queue, waiting time for security clearance, cleanliness, speed of baggage service, and ambience of the airport.

Airport	Score
Bhubaneswar	4.68
Varanasi	4.68
Chandigarh	4.65
Trichy	4.64
Jodhpur	4.68
Udaipur	4.48
Bhopal	4.46
Madurai	4.45
Tirupati	4.40
Coimbatore	4.31
Srinagar	4.25
Mangalore	4.25
Port Blair	4.25
Bhavnagar	4.23

13. Government on 16<sup>th</sup> July deferred the decision on increasing the FDI cap in civil aviation from 49% to 74%. As per the current FDI policy, foreign investment in scheduled air transport services is allowed up to 49% of the paid-up capital of an Indian carrier under the government approval route.
14. Union Cabinet on 17th July gave its approval for renaming Bengaluru International Airport as "Kempegowda International Airport". The Karnataka Legislative Assembly passed a unanimous resolution on 10.12.2012 and the Legislative Council also passed a similar resolution two days later to rename Bengaluru International Airport as "Kempegowda International Airport".

15. The Central Vigilance Commission has sought a "factual report" from MoCA on a complaint of alleged corruption in the Rs 2,058 crore deal between Jet Airways and Etihad Airways. Competition Commission of India has also sought detailed response from Jet and Etihad on the combined market share the two airlines expect to have on the India – Abu Dhabi and beyond routes to places like North America and Europe where other Indian carriers also fly.
16. MoCA has decided to start Helicopter Emergency Medical Services in the country. In order to deal with inter-ministerial issues, including those pertaining to security, MoCA has formed a group which will address the concerns of private helicopter operators.
17. DGCA in its new Civil Aviation Requirements has suggested that airlines issue Frequent Travellers Medical Card to cut down multiple medical clearances required by disabled passengers during air travel. The card will be acceptable across airlines. The draft guidelines include appointment of a nodal and an appellate authority for grievance redressal, involvement of travel agents to ascertain needs of disabled passengers at the time of booking and standardisation of training of airline, airport and security staff. As per the draft, in case airlines refuse to carry disabled passengers, they have specify in writing the reason for doing so. It also states new or refurbished aircraft should be fitted with special equipment to cater to needs of disabled passengers.
18. DGCA will charge a fee on planes imported into the country as part of plans to generate its own income and become self-sufficient to turn itself into the independent Civil Aviation Authority. A fee of Rs 1 lakh will be charged on each plane weighing less than 10,000 kg and Rs 2 lakh for heavier aircraft. The fee will be Rs 10,000 for planes used to train pilots.
19. The Government of Karnataka is drafting a new minor airport policy which will help in utilising the existing idle airport infrastructure in the state. The state is keen to finalize a private airline operator for regional operation on select routes and is willing to extend concessions to facilitate commercial viability. The government has budgeted Rs 551 crore to promote connectivity in the state.
20. MoCA will soon make operational an Airfare Monitoring Cell to monitor domestic airlines' pricing mechanism. The cell would analyse data on tickets sold by airlines under different price buckets and make the information public to bring in transparency in airfare pricing. In case there are discrepancies, it would be referred to Competition Commission of India for commensurate evaluation and action. The airfare monitoring cell will help keep in check random increases in fares and predatory pricing in the aviation industry by making it mandatory for airlines to disclose data on fuel charge and taxes being levied on tickets. This will help the government keep a tab on the correlation between seats available, prices offered, taxes levied and the final pricing of air tickets to consumers.
21. A Steering group chaired by the Prime Minister's principal secretary has asked infrastructure ministries to expedite clearance for projects worth Rs 1 lakh crore in the aviation, road, railways and power sectors. The panel has set timelines for intermediate steps required for completing projects. The contract for the construction of the Navi Mumbai Airport has to be awarded by 31<sup>st</sup> January 2014. In addition, MoCA will also pursue the Goa (Mopa) airport. MoCA has also been asked to work towards awarding operate-maintain-transfer contracts for 4-5 airports by 31<sup>st</sup> March 2014. These airports include Lucknow, Ahmedabad, Jaipur and Guwahati.



22. DGCA on 22nd July issued two circulars to tighten laws against fake pilots and make it more difficult for such imposters to get flying licenses. The first circular asks all flying training schools to immediately install high visibility cameras across all parts of an airfield where a prospective pilot is being trained. It has asked for real time, online feed from these cameras and made it mandatory for all flying schools to keep the records for one year. The second DGCA circular allows the Chief Flying Instructor / Flight Instructor Incharge of any school to get prior approval and become qualified to carry out a flying test for issue, renewal and endorsement licences and ratings at uncontrolled airfields also.
23. According to **CAPA 'India Aviation Outlook Report' for 2013-14**, major aviation policy decisions in India, like the FDI policy, have often been implemented in an "ad hoc manner" and retraced at times, leading to political controversies, disillusioned investors and industry losses. The report said while liberalisation of FDI policy to allow foreign airlines to invest in Indian carriers was a welcome step, "but the manner of its execution has left a lot to be desired". "India has made no serious attempt to address the industry's core structural challenges, particularly the fiscal and cost environment, which is particularly hostile" now due to "stubbornly high fuel prices compounded by a sharp depreciation of Rupee and a punitive ad valorem sales tax". The report further said India's private airlines could post a combined profit of \$250-300 million or more while Air India will face "insurmountable" challenges. Kingfisher Airlines' hopes of returning to business appeared remote. The report said domestic traffic is expected to expand by 4-6% in FY2014 and International traffic is expected to grow by 10-12% as Indian carriers expand and as more bilateral entitlements are expected to be granted to foreign carriers.
24. DGCA has asked airport operators to tow away planes to the terminal after they land as this will save the more expensive ATF. DGCA has suggested exploring the option of 'dispatch towing', in which high-speed tugs-trucks meant to pull heavy objects – are used to move aircraft from the runway to the terminal gates and vice-versa. DGAC has also suggested using one engine for a twin-engine aircraft, when they are taxiing towards the terminal. However, in low visibility, single engine operations are not allowed.
25. Union Ministry of Environment and Forests has given the 'green signal' for the Navi Mumbai International Airport with several conditions for diversion of around 250 hectares of forest land in Raigad. The forest committee's clearance is contingent on several conditions such as replanting of destroyed mangroves, compensatory afforestation and a mitigation plan to reduce impact on the avifauna considering the airport is barely 9.5 km from the Karnala sanctuary.
26. Foreign Investment Promotion Board on 29th July cleared the Jet-Etihad deal with some conditions. The conditions are: Jet should seek prior approval of the government for any change in the shareholder agreement with Etihad. Any change in Jet's shareholding should also be with the permission of the government. All disputes under the shareholder agreement must be adjudicated under Indian law. Any other arbitration can be sought under the English Law. Jet and Etihad will have to submit new articles of association before the deal is put before finance minister for submission to the Cabinet Committee on Economic Affairs.
27. The Ministry of Home Affairs has stopped issuing temporary landing permits to air crew of foreign-registered business jets, citing security concerns. Additionally, the government has made it mandatory for the crew of non-revenue flights of foreign-registered aircraft to have employment visa to fly within the country after landing in India. The regulatory changes have



affected 60% of the 24,000 general aviation aircraft movement that take place every month. Airport operators in metros stand to lose Rs 30,000 per aircraft in landing, parking and navigation charges per inbound general aviation flight cancelled.

28. DGCA has asked the non-scheduled and private operators to access real-time weather details from the nearest Air Traffic Control before commencing the flight operations concerned over the rising incidents of chopper crashes due to inclement weather.
29. BCAS has conducted the audit of the security arrangements in several smaller airports across the country and has found some major faults in the security systems at airports in Bhuj, Aurgangabad, Bhopal, Juhu, Kanpur and Imphal and has sent a communication to AAI. These included non-working or defective closed circuit televisions, inadequate surveillance devices, shortage of wireless sets, broken airport perimeter walls and illegal constructions or slum clusters near these airports, which could constitute significant security threats.
30. The Haryana government on 31st July said that the Centre has given approval for two civilian airports in Hisar and Karnal.
31. The Cabinet Committee on Investment on 31st July cleared the Delhi Aerocity and Mumbai International Airport projects, freeing up huge hotel capacity in Delhi. The CCI ordered Delhi Police would address issues related to area security and DIAL will be free to hire guards for perimeter security in and around the airport. This would also apply to the Mumbai airport, where Mumbai Police and MIAL would do accordingly. The solution offered by Cabinet Committee on Investment to the security woes would require hotels to erect a glass wall around their buildings, the specification for which will be provided by DRDO.

## ATF PRICES

1. Jet fuel prices were hiked on 1st August by a steep 6.3% as falling rupee made imports costlier. ATF price in Delhi was hiked by Rs 4,169.4 per kilolitre to Rs 70,203.15 per kilolitre.

## **2. AIRPORTS**

### **2.1 Bangalore International Airport Pvt. Ltd.<sup>1</sup>**

1. BIAL has received the coveted ‘Airport of the Year’ award at the 5<sup>th</sup> South East Cargo & Logistics Awards 2013 held on 19 July 2013. This award recognises BIAL’s cargo initiatives and its effort to the making the Bengaluru International Airport the “South Indian Cargo Gateway to Global economies”. Bengaluru International Airport was adjudged the winner in its category or demonstrating strong year-on-year growth, operational and financial excellence, cargo performance and other unique cargo initiatives, including a visionary plan to enhance cargo growth in the region.
2. BIAL was recognized amongst the top 9 GreenCo rated companies at the recent GreenCo Summit 2013. Hari Marar, President, Airport Operations received this award from His Excellency Dr. APJ Abdul Kalam, Former President of India, at the GreenCo Forum. The GreenCo forum was launched this year and saw a participation of 350 delegates from various industries.

### **2.2 GMR Hyderabad International Airport Pvt. Ltd.<sup>2</sup>**

1. RGIA has become the first airport in India and the second in the Asia Pacific Region to receive Level 3 Optimisation of Airport Carbon Accreditation. This is the second accreditation in a row for RGIA, after it was accredited Level 2-Reduction under Airport Carbon Accreditation Programme, last year. Airport Carbon Accreditation Programme is the industry standard for assessment of airports’ efforts to deal with and reduce carbon dioxide emissions. Launched in June 2009, Airport Carbon Accreditation Programme comprises of four levels: ‘Mapping’ (Level 1), ‘Reduction’ (Level 2), ‘Optimization’ (Level 3) and ‘Neutrality’ (Level 3+). The airport has 150,000 tons of cargo handling capacity per annum.
2. GHIAL has signed an agreement with Turbo Jet Engines Private Limited, its first client for airport-based Free Trade Zone (FTZ) at RGIA. Turbo, in technical partnership with an established foreign partner, will set up repair, testing and calibration facilities for various aircraft components such as life rafts, wheels and brakes, oxygen cylinders, fire bottles, actuators and avionics equipment. The operations would also encompass repair and calibration of aircraft parts wherein original equipment manufacturers / airlines can send equipment from any part of the world to Turbo’s facility at the FTZ. This facility will derive synergies from the aircraft MRO set-up located at the airport, besides supporting air cargo stakeholders such as airlines and logistics players, thus creating a multiplier effect and an integrated ecosystem. The FTZ is envisioned to fuel the growth of a strong airport-driven economy and provide compelling value proposition to players across the industry value chain by offering modern and integrated ecosystem that will bring down transportation costs and reduce the turnaround time for movement of goods. The FTZ will also provide facilities for servicing, distribution, trading, warehousing of goods and other value additions.

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<sup>1</sup> Information provided by BIAL

<sup>2</sup> Information provided by GHIAL

## **2.3 Mumbai International Airport Pvt. Ltd.<sup>1</sup>**

1. MIAL has introduced an escort service for international passengers at Mumbai airport from 21st July. Modelled on the lines of Dubai airport's popular Marhaba service, the meet-and-assist service comes at a fee of Rs 2,800 per head. Passengers who avail of the service will be received by a hostess who will help in clearance formalities through international arrivals or departures, and assist with transfers and baggage, thereby ensuring a smooth and hassle-free passage through the airport. As a pilot project, the service has been restricted to international passengers, though plans are afoot to extend it to domestic flyers as well in time to come. To avail of the service, one has to fill up a registration form online or contact the guest relations executive for registration.
2. MIAL has claimed damages of Rs 276.46 crore from Housing Development and Infrastructure Ltd for delaying the first phase of construction at the airport.

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<sup>1</sup> Newspaper Clippings

### **3. AIRLINES<sup>1</sup>**

1. Madhya Pradesh Tourism and Ventura Air Connect Pvt. Ltd., Private operator, has jointly introduced an air-taxi service connecting places such as Bhopal, Jabalpur, Rewa, Khajuraho, Indore, Ujjain and Gwalior with two nine-seater Cessna Grand Caravans. For the first three years, the state government has pledged to underwrite 40% of the seat costs in case a flight carries fewer passengers.

#### **3.1 Air India (AI)**

1. AI has secured a \$450-500 million bridge loan from Deutsche Bank and Investec Bank for five of its Boeing Dreamliners. A bridge loan is used to meet payment commitments until a long-term financing arrangement is made.
2. Alliance Air subsidiary of Air India will charge passengers for meals on board from 1<sup>st</sup> August. The airline will continue to offer a bottle of water and peanuts free on board.
3. AI on 17th July launched an additional direct flight between Kolkata and Yangon. It also announced launch of 4 days a week Amritsar – Birmingham flight via Delhi from 1<sup>st</sup> August and daily non-stop flights from Delhi to Sydney and Melbourne from 29<sup>th</sup> August.
4. AI on 1st July suspended all its flight operations between Delhi and Kullu – Manali till September 15.

#### **3.2 Jet Airways**

1. Jet Airways has sought shareholder approval to increase its borrowing limit to Rs.25,000 crore from Rs.17,500 crore
2. Jet Airways has launched daily flights between Bengaluru and Vijayawada, two additional services a day to Mangalore and a service to Trichy via Kochi six days a week from July 25. It will introduce a second daily flight from Chennai to Singapore from August 1.
3. Jet Airways and HDFC Bank on 1st July launched a premium debit card-- JetPrivilege-HDFC Bank World debit card. The card will allow users to earn JPMiles on all purchases in stores or online, in addition to purchases on Jet Airways. These JPMiles can be redeemed for free flights to over 600 destinations. The card offers card members 3,000 JPMiles on enrollment during the first year. In addition, the card members can also earn 2,000 JPMiles on renewal. The launch of this card marks the entry of JetPrivilege into the expanding debit card segment.

#### **3.3 SpiceJet**

1. SpiceJet has commenced sale of tickets for its latest international non-stop flight on the Ahmedabad – Muscat route, scheduled to be launched on 29<sup>th</sup> August.

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<sup>1</sup> Newspaper Clippings

## INTERNATIONAL AIRLINES

1. AirAsia has introduced daily flights from Kolkata to Bangkok from 15<sup>th</sup> July 2013. It is also introducing a third daily flight frequency from Tiruchirappalli to Kuala Lumpur from August 30.
2. British Airways on 20th July said that it will operate a daily flight from Hyderabad to London from October 27.

## 4. CARGO<sup>1</sup>

1. After the successful introduction of Risk Management System (RMS) for imports as a trade facilitation measure and for selective interdiction of high risk consignments for Customs control, customs will now implement RMS in exports at Customs locations where the Indian Customs EDI Systems is operational. The RMS in exports will enable low risk consignments to be cleared based on self assessment of the declarations by exporters. This will enable the department to enhance the level of facilitation and speed up the process of cargo clearance. By expediting the clearance of compliant export cargo, the RMS for exports will contribute to reduction in dwell time, thereby achieving the desired objective of reducing the transaction cost in order to make the business internationally competitive. The RMS in Exports is scheduled for implementation from 15 July 2013 onwards.
2. Air Cargo Forum India has reported a jump in clearance of exports from IGIA, Delhi after customs went live with 24x7 clearance facility to expedite faster movement of cargo throughput. The implementation of night time cargo clearance to the regular day time working hours of customs at IGIA, has resulted in an increase of five to eight times in night time cargo admittance over the normal average. As a result of the 24x7 customs clearance measure, Indian exporters can now dispatch shipments to various destinations within the committed time frame and thus improve their competitiveness in the international market.
3. CBEC has notified Tiruchi airport for international courier imports and exports. Pending the notification, international courier shipments to and from Tiruchi were routed via other airport such as Chennai and Bangalore.

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<sup>1</sup> Newspaper Clippings

## 5. INTERNATIONAL NEWS<sup>1</sup>

1. IATA has started a pilot project, called New Distribution Capability (NDC), to charge separate amounts per service offered. As part of the project, booking sites will not only provide base fares and flight timings but will also display a list of services an airline is offering at extra charges. Most budget airlines have already implemented this system of paying extra for extra services. IATA has sought approvals for the project from global regulators such as the US Department of Transport. According to IATA's Director "We have launched the pilot project, and hopefully, by the end of 2013, air tickets (including these products) will start being issued under the NDC programme. We plan to start implementing it globally by 2015-16. It will provide more choice and transparency for consumers and will spark competition and innovation in the industry".

NDC is an IATA-led, industry-supported project to develop data transmission standard for communications between airlines and travel agents, offering all services on sale to the customer. For the passengers, NDC would provide information on ticket and services details and also be "fully compliant with privacy laws and regulations". It would provide personalised experience for users who choose to or not to share information about themselves, their frequent flier or credit card details and travel preferences. For travel agents, it would be a 'one-stop access' to ancillaries and airline services which would enable them to take advantage of "potential new revenue streams" and provide better service to clients.

2. According to the General Civil Aviation Authority, the number of aircraft in the UAE's skies is expected to almost double in the next decade. Last year, aircraft movements increased 6.7% to 741,450, data for the UAE Flight Information Region (FIR) showed. The UAE FIR will have 895,468 flight movements in 2015 and more than 1.13 million flight movements by 2020. The Emirates' airspace will have 1.62 million aircraft movements by 2030. The UAE airspace is among the smallest but most important in the world because of its strategic location between the East and the West.
3. According to the Emirate's new civil aviation strategy plan, Dubai International Airport will handle 75 million passengers by 2015, helping it to leapfrog London Heathrow to become the world's busiest and biggest airport in terms of international passenger capacity. The airport will handle 100 million passengers by 2020. According to the plan, Passenger aircraft movements will jump by 17% from 355,000 this year to 416,650 in 2015. A total of 35,000 cargo aircraft movements will be made in 2015, up from 28,250 this year. The number of new destinations accessible from Dubai International will increase by 20 this year, 22 next year and 24 in 2015. There would be a 0.5% annual rise in flights into and out of Dubai every year. According to the plan, Dubai's aviation industry supports about 259,000 jobs and helped to generate more than \$11.7bn for the economy in 2011, including indirectly through tourism and other industries. According to an estimate by Oxford Economics, Aviation's contribution to GDP will rise from 28% in 2011 to 32%.
4. Dubai International Airport handled 32.6 million in the first half of this year, making it the busiest six months in the airport's history. According to its latest traffic figures, DXB welcomed handled a total of 5,537,908 passengers in June, a robust growth of 17.5% from the 4,714,746 who passed through the airport in June 2012. Following seven consecutive months of five million-plus traffic, the year to date traffic reached 32,662,103 up 16.9% from

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<sup>1</sup> ACI Airport World



27,931,639 in the first half of 2012. The average monthly passenger traffic recorded in the first six months of the year stood at 5.44 million compared to 4.65 million during the corresponding period in 2012. In June, the top five country destinations in terms of passenger volumes were India, Saudi Arabia, the UK, Australia and Pakistan. The gateway also handled a total of 202,077 tonnes of freight compared to 194,992 tonnes in June 2012, an increase of 3.6%. Passenger traffic at Dubai International is expected to surpass 65.4 million in 2013.

5. Abu Dhabi International Airport handled 7.94 million passengers during January – June 2013 which is a rise of 12.6% on the corresponding period a year ago. The gateway also registered a 10.4% increase in aircraft movements to 65,072 during the six months. Cargo traffic also soared in the first half of 2013, with 325,737 tonnes of cargo passing through the gateway – a 21.5% upturn on the first six months of 2012.
6. Dubai Duty Free has announced a 13% increase in sales with turnover reaching \$874 million for the first six months of the year. The figures signal an excellent prospect for the retailer's 30th year of business, with an anticipated turnover of \$1.8 billion this year. Perfumes, Liquor and Gold retained the top three category positions with Perfumes in particular showing strong growth with a sales increase of 18% to \$136 million year to date, while Gold retained its third position showing an increase of 13% to \$88 million. Sales of Tobacco were up by 13% to \$74 million while Confectionery was up by 15% to \$71 million accounting for 8% of total revenue. Other notable increases in sales were seen in Cosmetics and Watches which rose by 17% and 22% respectively over the same period last year. Moreover, departure sales have increased by 13% compared to the same period in 2012 and similarly sales in Arrivals and public shops have shown an increase of 15% and 24% respectively. Dubai Duty Free saw an increase in consumer spending across all categories, with average spend per departing passenger at \$48.
7. London Gatwick Airport is hoping to cut regulatory oversight of its pricing by proposing lighter fee increases for the period 2014-2021. The UK CAA recently found that “substantial market power persists” at Gatwick Airport, despite its split from former owner BAA. Gatwick has rebutted this claim and argued it should not need an economic licence. In a bid to lighten regulatory oversight, Gatwick Airport has revised its original price-increase proposal. Initially it had tabled a retail price index (RPI) plus 4% hike over the seven-years from April 2014, but this has now been slimmed to RPI plus 1.5%. The Gatwick said, “There was concern about the price increase. The CAA said it was too high and lot of airlines complained. We have listened and revised our offer, but we still need money to invest in improving our infrastructure and facilities. The CAA said it was important for us to find efficiency savings in our capital investment plans, so we are consulting with the airlines to make sure everyone is happy about it.”

Gatwick has been trying to roll out what it dubs a “Contracts and Commitments” pricing structure, where each carrier negotiates their own deal based on agreed price and service commitments. Airport said “We recognize that airlines would like some kind of guarantee, like Contracts and Commitments, which commits us to limits on pricing over seven years and works like a cap. This would not be set by the CAA, but it would be a price guarantee arranged individually with us. At the moment, we can't do that because we have limited flexibility”. If Gatwick fails to reach an agreement on Contracts and Commitments, the CAA has set out a price cap of RPI plus 1% for the five years from April 2014. The CAA's final proposals will be released in October 2013 and final decisions on market power, economic

regulation and licencing will be published in early 2014. The new pricing structures are due to take effect from April 2014. For the year ended March 31, 2013, Gatwick's revenue rose 4.2% year-over-year to £538.9 million (\$829.4 million) on the back of 1.2% traffic growth taking it to 34.2 million annual passengers. Operating profit before exceptional items rose 2.5% to £227.1 million, although £226.7 million in capital investment resulted in a £29.1 million full-year net loss, down 36.3% year-over-year.

8. San Francisco International Airport is accepting proposals for pop-up retail outlets at two locations at its Terminal 3 which is scheduled to open in January 2014 for a period of either six months or one year. A pop-up shop is one that opens on a short licence, possibly monthly, to enable a business to try out a new brand or see if a concept or product works in that location. The airport is offering concessions for the non-exclusive sale of retail merchandise that reflects the Greater San Francisco Bay Area. The spaces will be move-in ready with fixtures provided, and will require minimal costs to start up, said the airport.
9. Etihad Airways second-quarter revenue jumped 7% on the year to reach \$1.33 billion (Dh4.9 billion) as income from codeshare and alliance partnerships grew. Revenue generated by codeshare and equity-alliance partners was \$184m in the second quarter, 25% higher than the \$147m during the same period last year. Partnership revenue made up 20% of the airline's total passenger revenue, both in the second quarter and the first half of the year.

Passenger revenue for the first half of the year reached \$1.8 billion, a rise of 13% from \$1.6bn in the first half of last year and also a record half-year result. Cargo remained the standout performer for the airline, with a 26% jump in freight carried during the second quarter to 112,963 tonnes.

## New Airport Initiatives Internationally

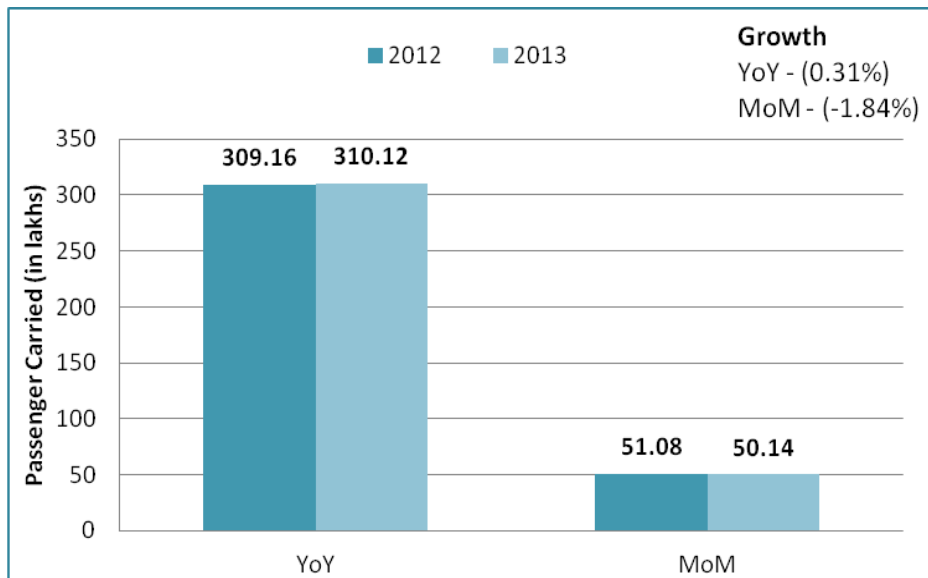
1. Heathrow Airport has come up with a novel way of helping the nearly 200,000 British families that are expected to fly out of the gateway for their summer holidays in the next few weeks – an army of porters to help them with their luggage! The dedicated team of ‘Airporters’ will specifically help families get from the airport’s Long Stay car parks to the terminal buildings. The move follows research showing that 43% of parents feel stressed or nervous at the idea of travelling with their children. It also revealed that 64% of parents said they would welcome an ‘extra’ hand when travelling through the airport. The new initiative will also inform families of the facilities available to them at each stage during their journey, including play areas in all terminals, the wider family lanes through security and changing facilities.
2. Singapore Changi Airport has added another 'green oasis' to its list of customer friendly facilities – an interactive 'Enchanted Garden'. Located within Terminal 2's Departure Transit Mall, the new addition – it joins Changi's existing Cactus (Terminal 1), Orchid, Sunflower (Terminal 2), and Butterfly (Terminal 3) gardens – boasts a dramatic display of vibrant colours and interactive technology. Evoking a Shangri-La-like atmosphere, the centrepiece of the garden comprises four giant glass bouquet sculptures, carefully decorated with a mosaic of reflective and shimmering stained-glass. Nestled within these glass bouquets are a dazzling variety of freshly-cut flowers and soft ferns.

The garden is an interactive and immersive experience that 'magically' comes to life with sight and sound, captivating visitors as they weave through the garden. Motion sensors trigger sounds of nature and blooming flowers while fibre-optic and LED lighting, embedded in the flooring, form a fascinating carpet of sparkling lights. The Enchanted Garden also features undulating pathways and a fish pond, providing passengers with some respite from the hustle and bustle of air travel. Archerfish and koi reside in this pond and there is an opportunity for young and old alike to join in feeding the fish.

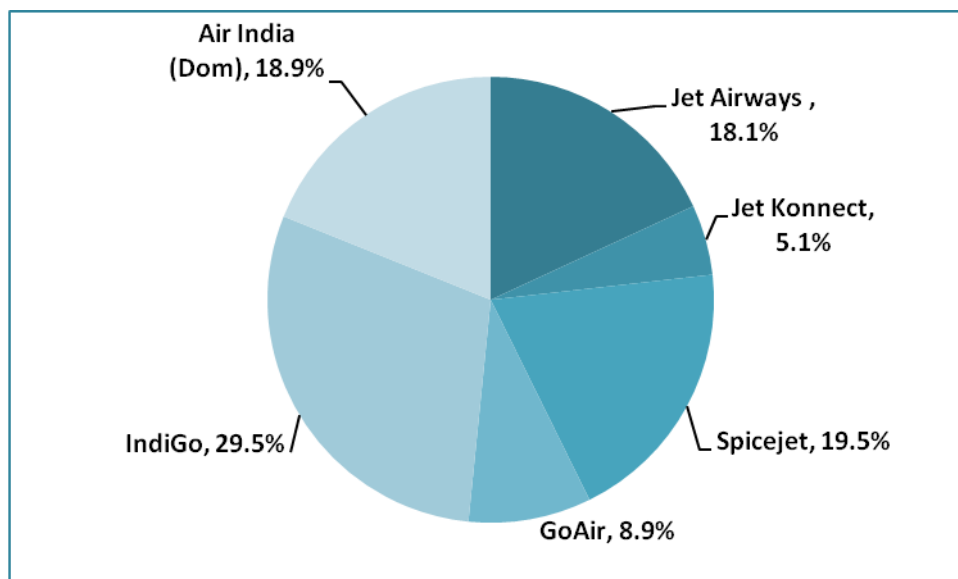
3. Frankfurt Airport has installed a bottle return machine in its Terminal 1 that lets passengers cut waste while backing their choice from four charities. Passengers who throw away their liquid containers at the terminal’s security checkpoint no longer add to the airport’s environmental footprint. A custom-made bottle return machine now offers travellers a convenient way to get rid of their cans and bottles while helping their selected charity.
4. Adelaide Airport has become the first airport in Australia, and only the second international gateway in the world, to use Google Maps' indoor ‘Street View’ technology. The navigation works like Street View so viewers can explore both the departures and arrivals levels of Adelaide Airport’s main terminal building. The technology – available through the airport's Google Business Photos initiative – even lets passenger ‘walk’ down one of the aerobridges and out alongside the edge of the runway in a 360 degree experience.

## 6. TRAFFIC<sup>1</sup>

1. According to DGCA, passenger traffic grew 0.31% in January - June to 310.12 lakh from 309.16 lakh a year ago, but fell 1.84% in June from the same period a year ago.



2. The market share of scheduled domestic airlines for the month of June 2013 is:



3. According to IATA Air Passenger Market Analysis June 2013, global revenue passenger kilometers were up 6.0% in June compared to a year ago, slightly up on May growth of 5.8%. The robust growth, measured in revenue passenger kilometers (RPK), is ahead of the 4.8% demand growth reported over the first six months of 2013 compared to the same period in 2012. It is also ahead of the 5.6% expansion in capacity for June over the previous year. This pushed the passenger load factor to 81.7%.

<sup>1</sup> ACI, IATA, DGCA and Press Information Bureau

## International Passenger Markets

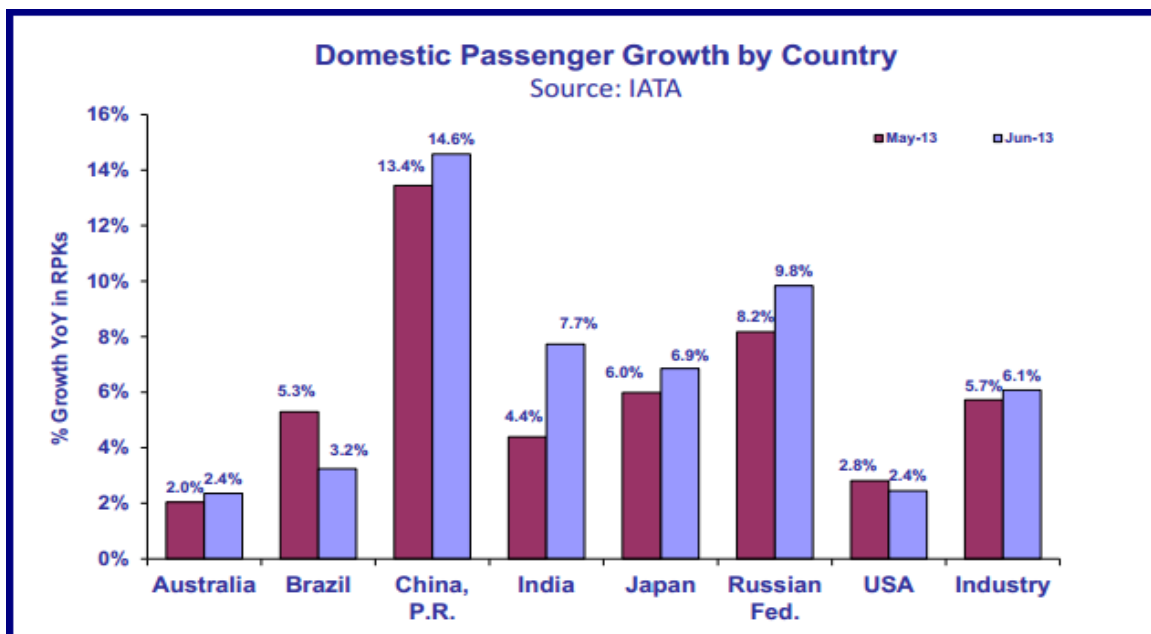
International air travel expanded strongly, up by 5.9% in June compared to a year ago. June capacity grew in line with this (5.7%) resulting in a June international load factor of 81.4%.

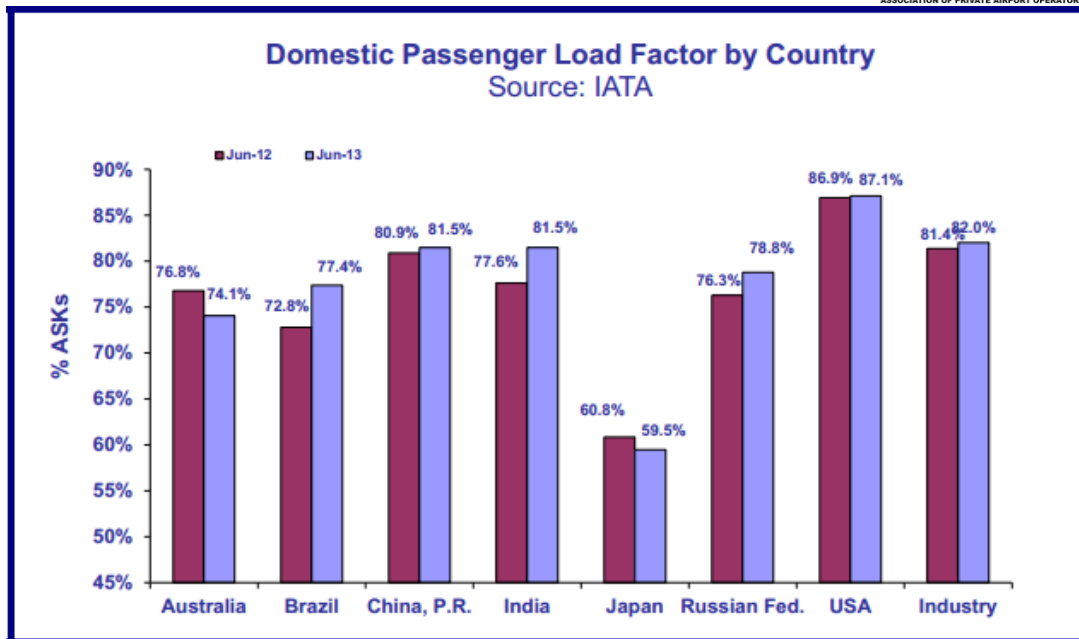
**Asia-Pacific carriers** grew by 5.5% on international routes, slightly behind the 6.7% growth in capacity. The load factor stood at 79.0%, the lowest among the major regions. Slower than expected economic growth in China during the first half of 2013 coupled with a decline in both trade and export orders are negatively impacting travel across the region. Nonetheless, Asia Pacific carriers did account for nearly half of the May to June growth in RPKs.

## Domestic Passenger Markets

Total domestic air travel performed strongly in June, with growth of 6.1% compared to June 2012, and growth in all major markets. Domestic capacity expanded by 5.2% leading to a load factor of 82.0%.

The **Indian** domestic market grew 7.7% in June year-on-year, well ahead of a capacity expansion of 2.6%. Load factors reached 81.5%. Reductions in domestic fares may be leading to increased demand, but it is difficult to discern the true strength of the Indian market due to the volatility of month-to-month traffic.





4. According to IATA Air Freight Market Analysis June 2013, Global air freight tonne kilometers were 1.2% higher in June compared to a year ago, slightly up on May growth of 0.9% and above the virtually flat growth year-to-date. There was an improvement of 0.8% in air freight volumes in June compared to May. **Asia-Pacific** demand continued to be weak with volumes contracting 1.8% compared to June 2012 and by 2.3% over the first six months of the year. This is the weakest performance among the regions and reflects the broad impact of the slowing Chinese economic expansion.
5. According to IATA Premium Traffic Monitor May 2013, the number of passengers travelling in premium seats on international markets was 2.0% higher in May compared to a year ago, a slowdown on the April result of 3.8%. Economy class passenger travel rose at a faster pace, up 3.9% in May year-on-year, close to the 4-5% growth in April.
6. According to IATA Airlines Financial Monitor May - June 2013, worldwide airline share prices fell 5% in June compared to May, but this is largely consistent with performance of the broader market. The FTSE Global All Cap slipped 3% over the month. Share prices of Asia Pacific airlines experienced the steepest decline, falling 10% in June compared to May. Weakness in air freight markets, to which some Asia-Pacific carriers have significant exposure, could be dampening the performance outlook for airlines in this region.
7. According to ACI, passenger traffic increased by +4.7% in May across the globe. International passenger traffic and domestic passenger traffic increased 6.9% and 2.8% respectively, as compared to May 2012.

Air freight continued to maintain a sluggish pace with virtually no growth in the volume of traffic worldwide. International freight was flat for the month, while domestic freight traffic decreased by -1.1%. From June 2012 to May 2013, total freight volume increased only slightly by +0.3%. In analysing the world's top twenty airports with respect to freight traffic, as much as 60% of these airports faced year-over-year declines in air freight traffic. Jakarta (CGK) and Dubai (DXB) are the only hubs among the world's top airports to experience significant gains of +18.3% and 11.9% respectively.

<b>TABLE 1: SUMMARY WORLDWIDE TRAFFIC RESULTS, May 2013 (% CHANGE)</b>			
	<b>May 2013 Over May 2012</b>	<b>Year to date 2013</b>	<b>12-month rolling year</b>
<i><b>PaxFlash</b></i>			
<b>International passenger</b>	<b>6.9</b>	<b>4.7</b>	<b>4.5</b>
<b>Domestic passenger</b>	<b>2.8</b>	<b>1.6</b>	<b>1.6</b>
<b>Total passenger</b>	<b>4.7</b>	<b>3.0</b>	<b>2.9</b>
<i><b>FreightFlash</b></i>			
<b>International freight</b>	<b>(0.0)</b>	<b>(0.4)</b>	<b>(0.4)</b>
<b>Domestic freight</b>	<b>(1.1)</b>	<b>1.2</b>	<b>0.7</b>
<b>Total freight</b>	<b>(0.4)</b>	<b>0.1</b>	<b>0.3</b>

8. Foreign Tourist Arrivals during the Month of June 2013 were 4.44 lakh as compared to Foreign Tourist Arrivals of 4.33 lakh during the month of June 2012 and 4.05 lakh in June 2011. There has been a growth of 2.5% in June 2013 over June 2012 as compared to a growth of 6.9% registered in June 2012 over June 2011. Foreign Tourist Arrivals during the period January to June 2013 were 33.08 lakh with a growth of 2.6%, as compared to the Foreign Tourist Arrivals of 32.24 lakh with a growth of 6.7% during January to June 2012 over the corresponding period of 2011.
9. Foreign Exchange Earnings during the month of June 2013 were Rs 7,036 crore as compared to Rs 6,485 crore in June 2012 and `5,440 crore in June 2011. The growth rate in Foreign Exchange Earnings in rupee terms in June 2013 over June 2012 was 8.5% as compared to 19.2% in June 2012 over June 2011. Foreign Exchange Earnings from tourism in rupee terms during January to June 2013 were Rs 50,448 crore with a growth of 15.3%, as compared to the Foreign Exchange Earnings of Rs 43,760 crore with a growth of 24.4% during January to June 2012 over the corresponding period of 2011.
10. Visa on Arrival scheme of the Government continues registered a growth of 22.9% during June, 2013 as compared to June, 2012. During the month, a total number of 1,062 Visa on Arrivals were issued as compared to 864 during June, 2012. During the period January to June 2013, a total number of 9,328 Visa on Arrivals were issued as compared to 6,721 Visa on Arrivals during corresponding period of 2012 registering a growth of 38.8%.
11. According to IATA World Air Transport Statistics, snapshot of 2012 performance:

### **Passenger**

- System wide, airlines carried 2.977 billion passengers on scheduled services.
- Airlines based in the Asia-Pacific region carried the most passengers last year (947.9 million), followed by carriers in North America (808.1 million), Europe (780.6 million), Latin America (226.5 million), Middle East (144.1 million) and Africa (69.8 million).
- Developing economies continued to drive global demand growth: 65% of the growth in passenger numbers on international services in 2012 occurred on markets linked to emerging markets.



- The premium travel segment slipped to 7% of total international travel in 2012, but yields for the segment were more robust than for the economy segment, and premium travel accounted for 27% of international passenger revenues.
- The top countries by region based on passengers carried were for Africa: South Africa (20.4 million), Asia-Pacific: People's Republic of China (361.4 million), Europe: United Kingdom (171.5 million), Latin America and Caribbean: Brazil (88.9 million), Middle East: United Arab Emirates (40.6 million), North America: United States (598.2 million). The United States continues to be the largest single market for air travel.
- Countries with high year-over-year increase in passenger growth included Indonesia (18.2%), Thailand (17.7%) and Turkey (16.7%).
- The top five airlines ranked by total scheduled passengers carried were Delta Air Lines (116.7 million), Southwest Airlines (112.2 million), United Airlines (92.6 million), American Airlines (86.3 million) and China Southern Airlines (86.3 million).
- The top three city-pairs based on passengers carried on international routes were all within the Far East: Hong Kong-Taipei (5.5 million), Seoul-Tokyo (3.6 million) and Kuala Lumpur-Singapore (3.4 million).
- The top three city-pairs based on passengers carried on domestic routes were Jeju-Seoul (9.5 million), Sapporo-Tokyo (8.8 million) and Fukuoka-Tokyo (7.6 million).

## **Fuel**

- In 2012, global commercial air transport consumed 73 billion US gallons of fuel at an estimated cost of \$209 billion or 33% of airline operating costs.
- The rise in the price of jet fuel since 2010, to an average of \$130 per barrel in 2012, has added over \$60 billion to the industry's fuel bill.
- IATA member airlines fuel efficiency improved by 18% during the 2001-2012 period from 45.0 to 36.8 liters per 100 revenue tonne kilometers. Fuel efficiency improved by 1.7% in 2012 compared to 2011.

## **Fleet and assets utilization**

- In 2012 the delivery of 1,374 jets and turboprop aircraft added 7-8% to industry capacity. However, less fuel-efficient aircraft were retired or put in storage resulting in a net fleet expansion of 500 aircraft.
- At year-end some 24,911 aircraft were in commercial airline service.

## **Airline Alliances**

- Star Alliance maintained its position as the largest airline alliance in 2012 with 25.2% of the total IATA scheduled traffic (revenue passenger kilometers), followed by Sky Team (19.8%) and one world (14.1%).

Air transport is a critical component of global economy supporting 57 million jobs and \$2.2 trillion in economic activity.

## **7. REVIEW OF REPORT**

### **IATA PROFITABILITY AND THE AIR TRANSPORT VALUE CHAIN**

IATA has published a report on Profitability & the Air Transport Value Chain during June 2013. This report highlights the profitability of airline industry and also highlighted many other challenges which the air transport value chain faces today.

IATA in their study report supported by analysis from McKinsey & Company has analysed the investor returns within the airline industry and its value chain. In its report IATA has mentioned that airlines and the wider air transport supply chain create substantial value for consumers and to the broader economy. The air travel has expanded 10 fold and air cargo 14 fold compared to a 3 to 4 times rise in world GDP. It is also mentioned that in spite of this huge expansion airlines have only been able to generate sufficient revenue and profit to pay their suppliers and also service their debt and hence there is nothing left to pay for investor for providing equity capital to the airline industry.

IATA in its study has called for a new thinking on the relationships between partners in the air transport value chain. IATA said “In the period 2004-2011, investors would have earned USD 17 billion more, annually, by investing their capital in bonds and equities of similar risk. Unless we find ways to improve returns for our investors it may prove difficult to attract the USD 4 to 5 trillion of capital need to serve the expansion in connectivity over the next two decades, the vast majority of which will support the growth of developing economies”. According to the report, the airline industry’s annual return on invested capital was only 4.1% between the years 2004 and 2011 which was only slightly higher than the average of 3.8% between 1996 and 2004. This is still way below the average cost of capital which is 7.5%.

According to the study, returns on capital invested in airlines have improved in recent years, but are still far below what investors would normally expect to earn. The study showed that over the past 40 years virtually all industries have generated higher returns on invested capital than the airline industry. Moreover, airlines are the least profitable segment of the air transport value chain while other segments consistently generate good returns for their investors. The biggest cost for airlines today is fuel and companies in this sector benefited from an estimated \$16-48 billion of their annual net profits generated by air transport. The most profitable part of the rest of the value chain is in distribution, with the computer reservation systems businesses of the three global distribution system companies generating an average returns on invested capital of 20%, followed by freight forwarders with an returns on invested capital of 15%.

The report also demonstrates the need for effective partnership between airlines and all their business partners in the air transport supply chain including governments.

An agenda for governments is also outlined in the study. “Smart regulation is needed from governments around the world in order to maximise the economic benefits of connectivity—jobs and growth. Unfortunately, high taxation and poorly designed regulation in many jurisdictions make it difficult for airlines to develop connectivity. On top of the cost issues, airlines also face a hyper fragmented industry structure owing to government policies that discourage cross-border consolidation. There is plenty of room for some fresh thinking on all accounts to maximize the large economic benefits air transport brings to their economies”.