

Scheme for enhancing air connectivity between Indian states and international destinations

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List of Abbreviations

- I. AAI: Airports Authority of India
- II. ASA: Air Service Agreement
- III. ATF: Aviation Turbine Fuel
- IV. DGCA: Directorate General of Civil Aviation
- V. GST: Goods and Service Tax
- VI. IAC: International Air Connectivity
- VII. IACF: International Air Connectivity Fund
- VIII. LOA: Letter of Award
- IX. MoCA: Ministry of Civil Aviation
- X. NCAP: National Civil Aviation Policy
- XI. NIP: Notice Inviting Proposals
- XII. UT: Union Territory

1. Objectives and Guiding Principles

1.1. Background

- 1.1.1. The Ministry of Civil Aviation (MoCA), Government of India released the National Civil Aviation Policy 2016 (NCAP 2016). It envisions increasing the international ticketing to 20 crore by 2027.
- 1.1.2. NCAP 2016 also seeks to sustain and nurture a competitive market environment in the civil aviation sector. It is believed that it would be best for growth in the sector and establishment of international air connectivity to materialize through open market mechanisms in terms of airlines assessing demand on various routes, developing networks through deployment of appropriate capacities & technologies, etc.
- 1.1.3. However, certain State Governments of India also felt that facilitating/ stimulating international air connectivity would be desirable from a public policy perspective and may need financial support, at least in the initial period, to trigger participation of airlines. Such State Governments desire to have direct scheduled flights between their respective states and select international destinations to promote socioeconomic growth. It is in this context that the financial assistance scheme (the Scheme) was envisaged for promoting international air connectivity between select destinations in the state and international destinations, as decided by the State Governments ("International Air Connectivity Scheme"), hereinafter called "IAC Scheme or the Scheme".
- 1.1.4. The operation of the Scheme is proposed through a State Government led mechanism. According to which, the State Governments will identify the list of routes to be connected, airline operators will assess demand on the identified routes, submit proposals for operating/ providing connectivity on such routes; seek financial assistance, if any, while committing to certain minimum operating conditions.
- 1.1.5. While, it is the intent and focus of the Scheme that the proposed mechanism facilitates discovery of the optimum financial assistance requirements, MoCA recognizes that a market based discovery of optimum financial assistance requirements may not happen due to lack of competition/ uncertainty in market conditions and varied nature of operations on international sectors. The financial assistance provided may end up seeming to be higher than the actual financial assistance requirement in future on account of factors like higher airfares or yields, higher load factors, etc. Given that the focus of the Scheme is to provide international air connectivity where it does not exist and the nature of operations on international routes, the quantum or probability of such eventualities/ outcomes in future cannot be ascertained by MoCA or the State Governments and potentially even the market ex-ante on account of the multiplicity of unascertainable factors. Further, the Scheme is premised on and encourage an open market mechanism

where operators will be assessing demand on routes, developing networks through deployment of appropriate capacities & technologies, and take risks on account of factors like marketing of capacities, realizable demand, effect of ATF prices on costs / fares, etc. Accordingly, in consultation with stakeholders, MoCA recognizes that the risks retained with the operators have to be seen in their entirety.

1.2. Scheme Objective

- 1.2.1. The primary objective of the Scheme is to assist State Governments as they seek to facilitate/ stimulate scheduled air connectivity between their respective states and international destinations as selected by them.
- 1.2.2. Stimulating international air connectivity from/ to Indian states is envisioned under the Scheme by supporting airlines through the provision of financial support to meet the gap, if any, between the cost of airline operations and expected revenues on such routes.

1.3. Guiding Principles of the Scheme

- 1.3.1. Given the focus and objectives of the State Government, the key guiding principles for the Scheme would be:
 - 1.3.1.1. **State Government led mechanism:** In view of the fact that the State Government(s) are leading the initiative to promote scheduled air connectivity on international routes, identified based on its need and priorities/ focus, it is important that the financial support is provided by the concerned State Government.

The Scheme is accordingly to be made operational only for states, which demonstrate their commitment to implement and provide the requisite support for promoting operations under the Scheme.
 - 1.3.1.2. **Compliance with applicable laws:** The operations under the Scheme shall always be pursuant to applicable domestic as well as international regulations and prevailing air service agreements with other countries.
 - 1.3.1.3. **Sustainability of operations:** A key guiding principle would be to encourage sustainability of operations in the long term – such that the connectivity established is not dependent on financial assistance in perpetuity. Accordingly, under the Scheme, financial assistance is proposed to be provided for a limited period to facilitate/ stimulate international air connectivity with the international destinations.
 - 1.3.1.4. **Periodic review of the Scheme:** Acknowledging the fact that market dynamics will change over time, MoCA in collaboration with concerned State

Government(s) may amend various Scheme provisions from time to time as and when necessary for efficacy in accomplishment of objectives. The State Government shall authorize MoCA to issue direction from time to time, as may be necessary for smooth implementation of the Scheme.

1.4. Definitions

- 1.4.1. In order to operationalize the Scheme, unless the context requires otherwise, following terms under the Scheme shall have the meanings ascribed below:
 - 1.4.1.1. **‘Financial Support’** also called “Eligible Viability Gap Funding per Flight” shall mean the financial support provided to the Selected Airline for operation of IAC Flight(s) by the concerned State Government pursuant to this Scheme.
 - 1.4.1.2. **‘Financial Support per Seat’** also called ‘Quoted Financial Support per Seat ’ or shall mean the financial support per passenger seat, as quoted by the Selected Airline during the bidding process, to be provided under the Scheme upto IAC Flight Capacity.
 - 1.4.1.3. **‘International Air Connectivity Fund (IACF)’** shall mean the fund/ corpus created through the contributions made by the State Government(s), which shall be a dedicated fund for the provision of Financial Support under the Scheme. Such a fund can be created at the level of the Airports Authority of India or the State Governments as per the notifications issued by the Ministry of Civil Aviation from time to time
 - 1.4.1.4. **‘IAC Airport’** shall mean an airport (whether under the ownership of the AAI, State Governments, private entities or the Ministry of Defence, Government of India) licensed / approved by DGCA and selected by the State Government(s) for promoting international air connectivity under the Scheme.
 - 1.4.1.5. **‘IAC Flight’** shall mean an international flight using a fixed wing aircraft, operated by a Selected Airline pursuant to this Scheme on an IAC Route and satisfying the conditions specified in Section 3.3.
 - 1.4.1.6. **‘IAC Flight Capacity’** shall mean 100 % of aircraft’s passenger seating capacity, i.e., the total number of passenger seats onboard for an aircraft, per IAC Flight available and offered on an IAC Route.
 - 1.4.1.7. **‘IAC Route’** shall mean a non-stop air service connection (also referred to as a ‘route’) as (a) identified by the concerned State Government(s), (b) published by the Implementing Agency from time to time and (c) proposed/ operated pursuant to the Scheme, satisfying all of the following condition:
 - a) the route is between an identified IAC Airport in India and another airport in the other country;

- b) the route has no scheduled commercial flights by any airline at the time of its announcement, as part of NIP.

provided that, the operations on the proposed IAC Route shall at all times be guided by the provisions and status under the prevailing bilateral Air Service Agreement with the respective country;

- 1.4.1.8. **‘Minimum Performance Specifications’** shall mean the service conditions mentioned in Section 3.3 which must be met by a Selected Airline for operation of IAC Flight(s).
- 1.4.1.9. **‘North Eastern Regions (NER)’** The regions includes the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Sikkim.
- 1.4.1.10. **‘Performance Guarantee’** shall mean performance security in the form of an unconditional and irrevocable bank guarantee to be submitted by a Selected Airline to the Implementing Agency pursuant to Section 3.8, within 30 days from the date of issuance of Letter of Award (LOA) to such Selected Airline or as extended from time to time by the Implementing Agency.
- 1.4.1.11. **‘Selected Airline’** shall mean a fixed wing aircraft operator selected pursuant to the mechanism specified under the Scheme for providing air connectivity on an IAC Route.
- 1.4.1.12. **‘State Government’** shall mean the Government of any state/ UT from India, which implements the Scheme in its state and provides Financial Support to Selected Airline(s) under the Scheme.
- 1.4.1.13. **‘Tenure of Financial Support’** shall have the meaning as ascribed in Section 2.1.3 of this Scheme.

2. Features of the Scheme

2.1. Key Constructs

2.1.1. Designation of Implementing Agency and its responsibilities

- 2.1.1.1. The Ministry of Civil Aviation, in consultation with State Government(s), may designate any entity, from time to time, as the Implementing Agency under this Scheme and such entity shall be responsible for undertaking tasks and activities for supporting the State Governments' initiative to promote international air connectivity under the Scheme. Any department of the concerned State Government or the Airports Authority of India (AAI) may be designated as an Implementing Agency. Additionally, the designated Implementing Agency may be different from state to state.
- 2.1.1.2. The Implementing Agency shall be provided appropriate administrative charges for implementing the Scheme, as may be determined by MoCA from time to time in consultation with the State Governments.
- 2.1.1.3. Responsibilities of the Implementing Agency shall include inter alia:
 - a) Undertaking the bidding process for IAC Route(s) identified by the State Governments from time to time and taking necessary administrative actions for identification of Selected Airline pursuant to the Scheme;
 - b) Managing the IACF – Collection and disbursement of funds as provided by the State Government(s). In order to facilitate the collection and disbursement of funds under the Scheme, a bank account shall be established for this purpose with an identified bank. The State Governments shall be authorized to deposit funds into, and the Implementing Agency to withdraw funds from, the bank account for disbursement of Financial Support to Selected Airlines in accordance with this Scheme;
 - c) Financial Support will be provided to the Selected Airline from the respective fund allocated by the State Government towards this Scheme. The Implementing Agency shall be responsible for managing accounts/ statements with respect to such collections (state government-wise), and payments to Selected Airlines including, inter alia, any required communications seeking payments, reimbursements, reconciliation of accounts, etc.
 - d) Any other tasks and activities required for implementation of the Scheme.
- 2.1.1.4. For the effective monitoring under the Scheme, an appropriate committee shall be institutionalized under the Implementing Agency. Such a committee shall have representatives from both the State Government and the MoCA, and shall be entrusted with the responsibility to take decisions on Scheme related matters and

other approvals as deemed necessary from time to time.

2.1.2. Mechanism for provision of financial support

2.1.2.1. Under this Scheme, the concerned State Government shall provide Financial Support to Selected Airline(s) for operations of IAC Route(s). For avoidance of doubt, the Financial Support under the Scheme shall be available only to the Selected Airline for the IAC Route and shall continue as finalized pursuant to the mechanism outlined under the Scheme.

2.1.2.2. Concessions offered by the Central Government under the Scheme shall be as follows:

2.1.2.3. Selected Airlines will have the freedom to enter into code sharing arrangements with domestic as well as international airlines pursuant to applicable regulations and prevailing air service agreements.

2.1.2.4. Concessions offered by the Airports Authority of India shall be as follows:

In the event that the IAC Airport connected by an IAC Flight under the Scheme is operated by the Airports Authority of India, the AAI as per the Circular No. AAI/CHQ/IACScheme/2018 dated 6th of December, 2018, would provide incentive on Landing charges at the airport as per the following:

S.No	Category	Percentage incentive on Landing charges	
		Airports in NER	Airports in regions other than NER
1.	New Route	90% for 2 years	60% for 2 years
2.	New Flight	50% for 1 year	30% for 1 year
3.	Additional Flight	50% for 1 year	30 % for 1 year

Please refer to the circular (or any updated circular) released by AAI in this regard to know more about the above incentives and its provisions.

AAI may consider providing additional discounts, at its own discretion, for operations of such IAC Flight under the Scheme. AAI will declare such concessions from time to time at the time at the commencement of bidding process for respective IAC Routes.

2.1.3. Tenure of Financial Support

2.1.3.1. Subject to Section 2.1.3.2, the Financial Support by the State Governments as mentioned in Section 2.1.2.1 above will be provided for IAC Flight(s) under the Scheme for a period of one (1) year from the date of commencement of IAC Flight operations on any IAC Route under a Selected Airline Agreement (the "Tenure of

Financial Support”).

- 2.1.3.2. Consistent with the objectives of the Scheme, it is the intent of the MoCA, the concerned State Government and the Implementing Agency to provide the Financial Support for the period specified in Section 2.1.3.1 above and any other benefit as envisaged under the Scheme, unless unforeseen or exceptional circumstances - such as a court order or other factors beyond the control of the MoCA, the State Government(s) or the Airports Authority of India, constrain the ability of the MoCA, the concerned State Government and/or the Implementing Agency to continue with the Scheme. In the previously mentioned circumstances, the Implementing Agency shall endeavor to honor agreements already entered into with Selected Airline Operators for the remaining term of such agreements.
- 2.1.3.3. If however, the MoCA and/ or the Implementing Agency is required to immediately withdraw the Scheme and/ or suspend or cancel agreements entered into pursuant to the Scheme, in such an event, notwithstanding anything mentioned in this Scheme, the MoCA, the concerned State Government(s), the Implementing Agency, or any other agency supporting any of these entities shall not be liable for any loss or damage suffered by the Selected Airline Operator. Save and except for the obligation of the Implementing Agency to disburse the applicable Financial Support amount for IAC Flight operations already undertaken prior to withdrawal / discontinuation of the Scheme.

2.2. Identification of IAC Routes for bidding under the Scheme

- 2.2.1. The State Government, in line with its priorities and the Scheme objectives, will identify the list of routes to be connected under the Scheme.
- 2.2.2. The list of IAC Routes as finalized by the State Governments, will be published for information of stakeholders at the commencement of a bidding process under the Scheme.

2.3. Mechanism for Financial Support

- 2.3.1. The airlines shall bid the Financial Support per Seat for the operation of the IAC Flight. The Financial Support per seat sought shall be applicable for all the passenger seats deployed in the aircraft (**IAC Flight Capacity**). The Financial Support shall be provided for the actual number of flights operated in a week subjected to the provision mentioned in Section 3.3.1.1 of this Scheme. Financial Support per seat bid by the operator shall be relevant for a period of one (1) year starting from the date of commencement of IAC Flight operations.

- 2.3.2. MoCA recognizes that changes in ATF prices, exchange rate, and inflation have a bearing on cost of operations of airlines. Accordingly, the indexation of Financial Support per Seat to inflation, ATF prices and exchange rate of INR vis-à-vis United States Dollar will be based on the formula specified in Annexure – 1: Indexation of Financial Support per seat for determination of Financial Support per seat every Financial Quarter. The proportions in the formula have been determined with reference to a broad representative data set / typical cost of operations for airline operators.

2.4. Exclusivity of Financial Support

- 2.4.1. As mentioned earlier, stimulating sustainable non-stop air connectivity between their states and international destinations is the key objective of State Governments under the Scheme. The MoCA and State Governments recognize that traffic demand on IAC Routes will be uncertain, and with most of such routes being untested/ non-operational, the market risk for Selected Airline(s) could be significant. Such market risk would tend to be accentuated when multiple airlines are supported and encouraged to undertake operations on the same route. Such induced competition during the early stages of development of routes, especially given the demand uncertainty, could ultimately impact achievement of Scheme objectives.
- 2.4.2. Accordingly, during the Tenure of Financial Support, to encourage development of such routes by airlines, Selected Airline shall be granted the exclusivity of Financial Support for operating air transport services/ flights on IAC Routes (hereinafter referred to as “Financial Support Exclusivity Period”) under the Scheme. During the Financial Support Exclusivity Period, the MOCA or respective State Government shall not provide any Financial Support to any other airline for the specific IAC Route. The Financial Support Exclusivity Period shall commence from the date of the Letter of Award and end on the earliest to occur of: (a) the expiry or lapse of the time period (including any extension thereof) specified in the Letter of Award for execution of the Selected Airline Agreement and such agreement not having been executed by the Selected Airline within the specified or extended period, (b) expiry of one (1) year from the date of commencement of IAC Flight operations on any IAC Route and (c) termination of the relevant Selected Airline Agreement.
- 2.4.3. The exclusivity of Financial Support shall be granted to a Selected Airline only for the specific IAC Route (to and fro) as part of its Proposal for which the bidding has been undertaken and such operator has been identified as the Selected Airline. For avoidance of doubt, no exclusivity of operations shall be provided to the Selected Airline on the specific IAC Route.

2.5. Airfare Cap

- 2.5.1. The airfare charged ("Airfare on Cap Seats") by the Selected Airline on the IAC Route for initial 10 % of the IAC Flight Capacity (also called "Airfare Cap Seats") shall not exceed the Financial Support per Seat, submitted as part of the Financial Proposal. The Airfare on Cap Seats thus considered for comparison shall be exclusive of GST charged on airfare. The Selected Airline shall be allowed to charge GST on airfare over and above the Airfare on Cap Seats.

2.6. Miscellaneous

- 2.6.1. The State Governments shall authorize MoCA to issue such directions from time to time, as may be necessary for smooth implementation of the Scheme.
- 2.6.2. The details of bidding process shall be notified by the Implementing Agency through Notice Inviting Proposal (NIP) for selection of airlines under the Scheme from time to time.

3. Operating Mechanism

3.1. Introduction

- 3.1.1. The Scheme envisages State Government led mechanism for selection of an airline to operate on an IAC Route, wherein the Proposal(s) will be evaluated as per the mechanism presented herein. Pursuant to such evaluation of proposal(s), a Selected Airline will be identified and the State Government will enter into agreement with the Selected Airline for operations on the IAC Route ("Selected Airline Agreement").

3.2. Eligibility criteria for proposals

- 3.2.1. In order to be eligible for support under this Scheme:
- 3.2.1.1. Operations under the Scheme will be permitted through fixed wing aircraft only with passenger seating capacity of equal to or more than 70 seats.
- 3.2.1.2. Bidding under the Scheme shall be permitted only by the airline operators which are eligible to qualify as designated airline(s) of India (as per the applicable rules) as on 31 September 2019.
- 3.2.2. The Selected Airline shall be obligated to commence IAC Flight operations on an IAC Route, within a period of 180 days from the issuance of Letter of Award unless any extension is granted by the Implementing Agency. MoCA may examine, from time to time, the abovementioned eligibility conditions and may issue appropriate guidelines/ clarifications in this regard.
- 3.2.3. In the event that an IAC Route is proposed for bidding under the Scheme such that it satisfies the condition as provided in Section 1.4.1.7 on the first day of a proposal window in which an application is made and subsequently at any stage during the bidding process, an airline operator commences operation on such route without availing any support/concession under the Scheme, such route shall not be considered for award under the Scheme.

3.3. Minimum Performance Specifications for IAC Flight

- 3.3.1. Under the Scheme, a Selected Airline will be required to meet the following Minimum Performance Specifications with respect to the number of IAC Flight operations per week.
- 3.3.1.1. The number of IAC Flights to be operated in a week with Financial Support shall be a minimum of three (3) and a maximum of seven (7) departures per week from the same airport such that the IAC Flights are operated on at least three (3) days of the week. The Financial Support shall be provided for up to 900 seats of IAC Flight operation per week.

- 3.3.2. An Applicant must submit a Proposal for to-and-fro connectivity (two routes) between two airports.

By way of an illustration, an IAC Flight operating from point A to point B and returning to point A (to and fro operation) shall be considered as one departure from Airport A but two routes for the purpose of Financial Support provision such that for both the routes (i.e. from point A to point B and from point B to point A), the Selected Airline shall be required to satisfy the conditions provided in Section 3.3.1 and be eligible for payment of corresponding Financial Support.

3.4. Submission of Proposals

- 3.4.1. An airline (hereinafter called an “Applicant”) can submit proposals satisfying the eligibility conditions and minimum performance specifications provided in Section 3.2 and Section 3.3 respectively (“Proposal”) to the Implementing Agency in the form and manner specified in Section 3.4 hereto.
- 3.4.2. Upon notification of the Scheme by the Implementing Agency, prospective Applicant(s) can submit Proposals as per the timelines indicated by the Implementing Agency from time to time.
- 3.4.3. Applicants are advised to undertake their own due diligence including market assessment, slots availability, etc. and would bear full responsibility for the accuracy, adequacy, correctness, reliability and completeness of the assumptions, data & information considered by them. The MoCA, concerned State Government, or any other agency supporting any of these entities shall not bear any responsibility for any inaccuracy or lack of data / information or for assisting the Selected Airline with the slot availability at any of the airports for the proposed IAC Flight operations.
- 3.4.4. Applicants alone shall bear all costs associated with or relating to the preparation and submission of their proposals or any other costs incurred in connection with or relating to their proposals. All such costs and expenses will remain with the Applicants and the MoCA and/or the Implementing Agency or State Government or any other agency shall not be liable in any manner whatsoever to bear or reimburse any costs or other expenses incurred by the Applicants in preparation or submission of proposals, regardless of the conduct or outcome of the selection process specified under the Scheme.
- 3.4.5. Proposals received by the specified timelines shall be considered by the Implementing Agency for technical and financial evaluation.

3.5. Proposal submission requirements

- 3.5.1. As part of the proposal submission, an Applicant shall be required to submit information under following categories, as may be specified in detail from time to

time:

- 3.5.1.1. Applicant Information
- 3.5.1.2. Technical Proposal
- 3.5.1.3. Financial Proposal

3.5.2. **Applicant Information** - An Applicant shall provide the following information:

- 3.5.2.1. Registered name of the Applicant
- 3.5.2.2. Name of the airline
- 3.5.2.3. Date of incorporation
- 3.5.2.4. Certificate of incorporation
- 3.5.2.5. Country of incorporation
- 3.5.2.6. Certificate of designation issued by the concerned authority of India or the relevant documents establishing the eligibility of Applicant to qualify as the designated airline of India
- 3.5.2.7. Memorandum of Association and Articles of Association
- 3.5.2.8. Names of shareholders and percentage of shareholding and names of Directors on the Board except in case of publically listed companies, names of public shareholders are not required.

3.5.3. **Technical Proposal** - As part of the technical proposal, an Applicant shall submit the following information:

- 3.5.3.1. Proposal Security as indicated by the Implementing Agency from time to time
- 3.5.3.2. IAC Route, from the list of eligible routes published by the Implementing Agency, on which the Applicant would want to operate
- 3.5.3.3. Proposed aircraft to be deployed on the IAC Route
- 3.5.3.4. IAC Flight Capacity (Seating capacity of the proposed aircraft)
- 3.5.3.5. Number of IAC Flights per week.

3.5.4. **Financial Proposal** - As part of the Financial Proposal, the Applicant shall submit the following information.

- 3.5.4.1. Financial Support per Seat sought under the Scheme for IAC Flight.

3.6. Evaluation of Proposals and Applicant selection

3.6.1. After the receipt of Proposals, the Implementing Agency shall undertake assessment of information mentioned under Section 3.5.2 and Section 3.5.3 in terms of compliance with Section 3.2 and Section 3.3 and other conditions specified herein and advise the Applicant(s) whether the Proposal is complete or incomplete. The Financial Proposals shall not be opened at this stage. For the purpose of smooth implementation of the Scheme, the Implementing Agency may from time to time, issue such directions as may be necessary in consultation with MoCA.

3.6.2. In an event that the information provided by the Applicant(s) is incomplete, the

Implementing Agency may seek clarifications from the Applicant(s) indicating the incorrect/ missing information.

- 3.6.3. In the event, the Implementing agency receives only one (1) proposal for particular IAC routes with reference to the section 3.4.2 the Implementing agency may extend the last date of submission of proposals by one (1) week. If even after extension, there is only single valid Proposal for a particular IAC Route, the Implementing Agency shall open the Technical/Financial Proposal. In such an event, if the Technical/Financial Proposal of an Applicant satisfies the conditions as specified in Section 3.5.3 and Section 3.5.4, the Applicant who has submitted the Proposal shall be identified as the "Selected Airline".
- 3.6.4. In the event, the Implementing Agency receives one or more Proposals against the same IAC Route, the Implementing Agency shall, for all eligible Proposals, undertake opening of the Financial Proposal at a pre-specified date in the presence of Applicants who choose to be present, and for all Financial Proposal(s) that satisfy the conditions as specified in Section 3.5.4, the Selected Airline shall be determined based on the mechanism specified in Section 3.7.

3.7. Evaluation of Financial Proposal

- 3.7.1. The evaluation will be done on the basis of Financial Support per Seat ("hereinafter referred to as Bidding Parameter") such that the Applicant who has quoted the lowest Financial Support per Seat for the proposed IAC Route shall be selected as the "Selected Airline" for such IAC Route.
- 3.7.2. In the event that two or more Applicants have quoted the same Financial Support per Seat per IAC Flight (the "**Tied Preferred Applicants**"), the Implementing Agency shall specify a separate procedure for breaking the tie at that stage.

3.8. Performance Guarantee

- 3.8.1. As mentioned earlier, the Selected Airline will enter into a Selected Airline Agreement with the Implementing Agency for operating IAC Flights under this Scheme, within a period of 30 days from the date of issuance of Letter of Award or any extension as may be provided by the Implementing Agency, failing which, the Letter of Award may be withdrawn by the Implementing Agency.
- 3.8.2. At the time of signing the Selected Airline Agreement, the Selected Airline will be required to submit a Performance Guarantee to the Implementing Agency for an amount of Rs. 5,00,000 per IAC route
- 3.8.3. In addition to the provisions mentioned under Section 3.10, the Performance Guarantee will be dealt with by the Implementing Agency as follows:
 - 3.8.3.1. Performance Guarantee submitted by the Selected Airline shall be liable to

encashment in full as per the terms and conditions of the Selected Airline Agreement, if the Selected Airline fails to:

- a) Ensure integrity of the scheduled flights on routes proposed under the Selected Airline Agreement, i.e. it fails to operate at least 70% of the scheduled flights within the period of one year from the date of commencement of IAC Flight operation; or
 - b) Adhere to any other terms and conditions of the Selected Airline Agreement.
- 3.8.3.2. Upon such encashment, the Selected Airline will be required to replenish the Performance Guarantee within a specified period, failing which the Implementing Agency will be entitled to terminate the Selected Airline Agreement and proceed as per provisions of the Selected Airline Agreement.
- a) Performance Guarantee will be returned by the Implementing Agency to the Selected Airline upon completion of one (1) year from date of commencement of IAC Flight operations for a particular IAC Route as per the terms and conditions of the Selected Airline Agreement.

3.9. Change in deployed capacity

- 3.9.1. A Selected Airline for an IAC Route may decide to change the capacity deployed on an IAC Route.
- 3.9.2. In the event that a Selected Airline for an IAC Route intends to increase the capacity deployed on an IAC Route, it shall be required to inform the Implementing Agency and concerned authority (ies) and ensure compliance with reference to the provisions/ guidelines under ASA for increase in capacity.

- 3.9.2.1. The Selected Airline shall be allowed to change the aircraft type (size) operating on an IAC Route under the Scheme. The Financial Support per Seat applicable at the deployed aircraft shall be revised, such that the total Financial Support estimated based on the IAC Flight Capacity and Financial Support per Seat submitted as part of the Technical and Financial bid shall remain the same.
- 3.9.2.2. The Selected Airline shall be allowed to increase or decrease the number of flights on an IAC Route during the Tenure of Financial Support (as mentioned in Section 2.1.3) provided that the minimum conditions (such as number of IAC Flights in a week etc.) as provided in Section 3.3.1.1 are continued to be met. The Selected Airline shall be provided the Financial Support for IAC Flights for actual number of flights operated in a week provided that the total Financial Support provided in a period of one (1) year of IAC flight operation shall not exceed the total Financial Support estimated based on the number of flights per week and IAC Flight Capacity submitted by the Selected Airline as part of the Technical Proposal. There shall be quarterly reconciliation of the number of flights operated by the Selected Airline vis-à-vis the number of flights per week submitted as part of the Technical Proposal. The Selected Airline shall be informed about the total number of IAC Flight that the airline shall operate in the upcoming period within the Tenure of Financial Support to match the number of flight in a year estimated on the number of flights per week submitted as part of the Technical Proposal.

3.10. Exit from the Scheme

- 3.10.1. A Selected Airline may cease IAC Flight operations for any reason at any time after one (1) year from the date of commencement of IAC Flight operations on any IAC Route. In the event of such cessation of IAC Flight operations, provided there is no default by the Selected Airline under the Selected Airline Agreement, the Performance Guarantee shall be returned to the Selected Airline.
- 3.10.2. If however, a Selected Airline ceases IAC Flight operations before completion of one (1) year from the date of commencement of such IAC Flight operations on any IAC Route, the Performance Guarantee shall be liable to be encashed in full and retained as per the terms and conditions of the Selected Airline Agreement.
- 3.10.3. If, pursuant to Section 2.1.3.3 of this Scheme, the Scheme is withdrawn at any time, the Performance Guarantee shall be returned to the Selected Airline.
- 3.10.4. Notwithstanding other provisions under this Scheme, a Selected Airline shall be permitted, as per terms and conditions to be specified under the Selected Airline Agreement, to assign its rights under the Scheme to another airline, satisfying the provisions under Section 3.2.1 for operations through a similar type of aircraft as required under the Selected Airline Agreement, provided the Selected Airline has completed at least six (6) months of operations from the date of commencement of IAC Flight operations under the said Selected Airline Agreement.

3.11. Reporting obligations for a Selected Airline

- 3.11.1. The payment towards Financial Support will be made to the Selected Airline by the Implementing Agency on the completion of every month.
- 3.11.2. For the sanction of monthly Financial Support payment, the Selected Airline on an IAC Route will be required to submit information on specified parameters, which will be used by the Implementing Agency to monitor adherence to the agreed terms and conditions of Selected Airline Agreement.
- 3.11.3. The information required shall include the details of IAC Flights operated, the number of seats sold for each IAC Flight, passenger load factor for each IAC Flight, airfare on the seats sold among others. The details of such information requirements have been specified under the Selected Airline Agreement.

3.12. Disbursement of funds

- 3.12.1. The viability amount payable per flight (Eligible Viability Gap Funding per Flight) to the Selected Airline shall be the difference of gross viability gap funding (Quoted Financial Support per Seat multiplied by number of passenger seats in an aircraft) and 80 % of the total revenue ("Total Revenue") generated on airfare.
 - a) The amount of viability payable shall be worked out in the following manner:

$$P = V \times N - 0.8(R)$$

Where,

P is the viability amount payable per flight

V is the Quoted Financial Support per Seat

N is the number of passenger seat in an aircraft ("IAC Flight Capacity")

R is the gross airfare revenue excluding taxes ("Total revenue")

- a. As mentioned in Section 2.5.1 of this Scheme, the Selected Airline shall sell initial 10 % of the passenger seats ("Airfare Cap Seats") at or below the Quoted Financial Support per Seat. The Selected Airline may sell the remaining seats (beyond the Airfare Cap Seats) at market price. The revenue generated from airfare ("Total Revenue") shall include revenue generated from Airfare Cap Seats.
- b. In case the 80 % of the Total Revenue generated exceeds the product of Quoted Financial Support per Seat and number of passenger seats in an aircraft, no Financial Support shall be provided for operation of the IAC Flight. In an event GST is applicable on the Financial Support provided to the Selected Airline, the GST component shall be payable by the State Government. Quoted Financial Support per Seat submitted by the Applicant shall be exclusive of the applicable GST.
- c. The mechanism mentioned above has been explained in the form of illustration below:

Illustration:

Number of passenger seat in an aircraft ("IAC Flight Capacity"): 180

Quoted Financial Support per Seat: Rs 3000

Gross viability gap funding: $(180 \times 3000) = (V \times N) = \text{Rs. } 5,40,000$

Number of seats sold: 54 (30% load factor)

Revenue from Airfare Cap Seats (10 % of the initial seats): $\sum_{i=1}^{18} \text{Airfare } (i) = 50,000$

Revenue from seats sold other than Airfare Cap Seats (remaining 20 % of the seats): $\sum_{i=18}^{54} \text{Airfare } (i) = 1,50,000$

where Airfare (i) is the airfare charged on the i^{th} seat

Total Revenue (R): $1,50,000 + 50,000 = 2,00,000$

Eligible Viability Gap Funding per Flight (P): $5,40,000 - (0.8 \times 2,00,000) = \text{Rs. } 3,80,000$

Total revenue accrued to airline: Eligible Viability Gap Funding per Flight + Total Revenue = $3,80,000 + 2,00,000 = \text{Rs } 5,80,000$

- 3.12.2 The Selected Airline(s) will be required to submit to the Implementing Agency, all information pertaining to IAC Flights operated during a month as required in Section 3.11.
- 3.12.3 The Implementing Agency will scrutinize the information received from the Selected Airline(s) for compliance with the conditions of Selected Airline Agreement.
- 3.12.4 The Financial Support shall be disbursed by the Implementing Agency to the Selected Airline for every IAC Flight operated on the IAC Route during the reporting period, after adjustments for any defaults by the Selected Airline under the Selected Airline Agreement.

Annexure 1: Indexation of Financial Support per seat

Indexation of Financial Support Per Seat will be based on the following:

$$(Q2) = [(Q1)] * [1 + \Delta CPI * 50\% + \Delta ATF * 25\% + \Delta XCH * 25\%] \text{ Where,}$$

FSPS (Q2) is the Financial Support Per Seat or Financial Support amount, as the case may be, applicable for the present Financial Quarter

FSPS (Q1) is the Financial Support Per Seat or Financial Support amount, as the case may be, applicable for the previous Financial Quarter

ΔCPI is the change in Consumer Price Index – Industrial Workers (in percentage) based on figures published by the Government of India to be considered for determination of Financial Support Per Seat for the present Financial Quarter. It will be calculated as follows:

$$\Delta CPI \text{ (in \%)} = \left[\frac{\left\{ \left(\sum_{i=4}^6 (CPI - IW)_i \right) / 3 \right\} - \left\{ \left(\sum_{i=1}^3 (CPI - IW)_i \right) / 3 \right\}}{\left\{ \left(\sum_{i=1}^3 (CPI - IW)_i \right) / 3 \right\}} \right] \times 100$$

Where,

$(CPI - IW)_i$ is the CPI-IW published by Government of India for month i $i = 6$ for the latest month for which CPI-IW has been published by Government of India at the time of review of indexation

$i = 5$ for the month prior to the latest month for which CPI-IW has been published by Government of India at the time of review of indexation and so on..

ΔATF is the change (in percentage) in aviation turbine fuel prices measured as per the formula below:

$$\Delta ATF \text{ (in \%)} = \frac{\left[\left\{ \left(\sum_{j=1}^m ATF_j \right) / m \right\} - \left\{ \left(\sum_{i=1}^n ATF_i \right) / n \right\} \right]}{\left\{ \left(\sum_{i=1}^n ATF_i \right) / n \right\}} \times 100$$

Where,

m = No. of days in the period of three months corresponding to months 4, 5 and 6 in the formula for ΔCPI above

ATF_j = ATF price for the j^{th} day in the period of three months corresponding to

months 4, 5 and 6 in the formula for ΔCPI as given above

n = No. of days in the period of three months corresponding to months 1, 2 and 3 in the formula for ΔCPI as given above

ATF_i = ATF price for the i^{th} day in the period of three months corresponding to months 1, 2 and 3 in the formula for ΔCPI as given above

For the purpose of above estimation, ATF prices (for Domestic airlines) prevailing across four stations (Delhi, Mumbai, Kolkata and Chennai) of oil marketing company – HPCL - as published on their respective websites¹ will be considered. In case the ATF price for a particular date is not available on the website of oil marketing companies, the ATF price for the previous available date shall be considered.

ΔXCH is the change (in percentage) in the exchange rate between Indian Rupees and United States Dollar, as per the formula below:

$$\Delta XCH(\text{in } \%) = \frac{\left[\left\{ \left(\sum_{b=1}^y XCH_b \right) / y \right\} - \left\{ \left(\sum_{a=1}^x XCH_a \right) / x \right\} \right]}{\left\{ \left(\sum_{a=1}^x XCH_a \right) / x \right\}} \times 100$$

Where,

XCH = Exchange rate at which 1 USD can be converted into INR, i.e., XCH = Number of INR in 1 USD y = No of days in the period of three months corresponding to months 4, 5 and 6 in the formula for ΔCPI as given above

XCH_b = XCH for the b^{th} day in the period of three months corresponding to months 4, 5 and 6 in the formula for ΔCPI as given above

x = No of days in the period of three months corresponding to months 1, 2 and 3 in the formula for ΔCPI as given above

XCH_a = XCH for the a^{th} day in the period of three months corresponding to months 1, 2 and 3 in the formula for ΔCPI as given above

For the purpose of above estimation, Exchange Rates as published by Reserve Bank of India² (RBI) shall be taken into account. In case the exchange rate for a particular date is not available on the RBI website, the exchange rate for the previous available date shall be considered.

¹ HPCL - <http://www.hindustanpetroleum.com/hp-aviation-ATF-pricing-india-type2>

² <https://www.rbi.org.in/Home.aspx>