

# Issues for Parliamentarians

To facilitate informed discussions among Indian Parliamentarians on key economic policy issues

**CUTS**  
International

1/2006

## Good Economics is Good Politics



Parliamentarians' Forum on Economic Policy Issues (PAR-FORE)

## AIRPORT MODERNISATION SAGA: WHAT NEXT?

The government initiated the move towards modernisation and restructuring of the Delhi and Mumbai airports in early 2005 and invited bids from private corporate joint ventures. Six consortia submitted bids for Delhi and five for Mumbai.

A seven-member inter-ministerial group (IMG) comprising senior officials from relevant ministries and the Planning Commission, was formed to oversee the process. The Ministry of Civil Aviation engaged legal (Amarchand Mangaldas), financial (ABN Amro) and technical (AirPlan) consultants for evaluation of the bids. The tender norms prescribed a two-stage evaluation process, technical and financial. Only the bids that passed the technical evaluation would be opened for financial evaluation. The benchmark for qualifying in the technical bid was set at 80 percent.

An Empowered Group of Ministers (e-GoM), headed by Defence Minister, Pranab Mukherjee, and including ministers for finance, commerce, and civil aviation, was formed to finalise the candidates.

The consultants short-listed two consortia – Reliance-ASA Mexico, and GMR-Frapport – based on technical criteria. An 'independent' review of the evaluation was conducted by a Government Review Committee (GRC) of bureaucrats. The GCR said that though there was no bias in selection, the evaluation criteria

themselves were subjective in nature, hence precluding objective rankings. There were major disagreements within the IMG over the GRC report. A representative of the Planning Commission in the IMG insisted that a fresh technical evaluation be undertaken and only those bidders who are 'non-responsive in terms of the mandatory conditions' be disqualified.

The existence of sharply divergent views within the IMG led to the creation of a new Committee of Secretaries (CoS) headed by the Cabinet Secretary, to advise the e-GoM on how to move the modernisation process forward. The CoS engaged a panel of technical and financial experts headed by E Sreedharan (MD, Delhi Metro Rail Corporation) for advise. The Sreedharan committee examined the technical evaluation of only one bidder, the Reliance-ASA combine, since this consortium was alleged to have benefited from 'leniency' of the consultants. Other bids were not examined due to time constraints.

The Sreedharan committee, in its report on January 10, 2006, disqualified Reliance-ASA Mexico combine on the grounds that it did not meet the 80 percent criteria. The committee's report, in effect, means that only the GMR group remains in the race. The committee also endorsed the Airport Authority of India's (AAI) proposal to set up a Special Purpose Vehicle for

modernising the two airports. Its recommendations are, however, not binding on the e-GoM.

Now with the reports of all the committees set up on this issue, the e-GoM met on January 12, 2006, but the meeting was inconclusive, as the e-GoM wanted some clarifications from the Sreedharan Committee and decided to meet again on the 24<sup>th</sup> of January.

The entire bidding process has been mired in controversy for not being transparent and the balance being tilted in favour of the two short-listed consortia. Since the contracts for modernisation of both airports cannot be awarded to a single consortium, the two short-listed bidders are in effect assured of a contract each, if the process is allowed to continue.

As per the legal advice of Attorney-General, Milon Banerjee, the government can go ahead with opening of financial bids in the case of those who have been technically qualified.

Some of the options that the e-GoM is seen to have are as follows:

1. Continue the process with the two bidders originally shortlisted and evaluate their financial bids.

2. Lower the cut-off percentage in the technical criteria to allow more bidders to enter the race, before the financial bids are called for.
3. Ask the other five bidders who failed to meet the minimum stipulated criterion to submit fresh bids within a certain time.
4. Scrap the entire bidding process and call for fresh bids, this time evaluated by a government team.
5. Opt for the 'alternate plan' submitted by a joint forum of unions and associations of employees of the AAI. It entails in-house modernisation of the airports by the AAI with a joint venture partner (Delhi Metro Rail Corporation and/or national/international experts).

Which, if any, of these options is feasible? Are there any other options available? The stakes are obviously very high – Delhi and Mumbai airports handle a very large portion of all the air traffic in India. There is unanimity about the urgency to complete the modernisation of the two airports. Considering this, what is the best way to go about the modernisation process?

For further information, please contact



**CUTS Centre for Competition,  
Investment & Economic Regulation**

D-217, Bhaskar Marg, Bani Park,  
Jaipur 302 016, India.

Ph: 91.141.228 2821

Fx: 91.141.228 2485

E-mail: [c-cier@cuts.org](mailto:c-cier@cuts.org)

Web Site: [www.cuts-international.org](http://www.cuts-international.org)

Printed by Jaipur Printers Pvt. Ltd.,

M. I. Road, Jaipur 302 001, India.

To post comments, please write to:

[PAR-FORE@yahooroups.com](mailto:PAR-FORE@yahooroups.com)

