# MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (hereinafter "MoU") is executed at New Delhi on this..29th..day of December, 2016.

AMONG

President of India through Smt. Usha Padhee, Joint Secretary, MINISTRY OF CIVIL AVIATION, GOVERNMENT OF INDIA (hereinafter referred to as "Central Government")

AND

Governor of Uttar Pradesh through Sri Devendra Swarup, Director, Civil Aviation, GOVERNMENT OF UTTAR PRADESH (hereinafter referred to as "State Government")

AND

AIRPORTS AUTHORITY OF INDIA, a PSU under the Ministry of Civil Aviation, through Dr. Guruprasad Mohapatra, Chairman, Airports Authority of India (hereinafter referred to as "AAI")

"Government of Uttar Pradesh", Ministry of Civil Aviation, Government of India" and "Airports Authority of India" shall be collectively referred to as "Parties" and individually as "Party".

1. **DEFINITIONS** – The terms used in this MoU shall have the same meaning as defined in the Regional Connectivity Scheme (RCS) of the Ministry of Civil Aviation.

## 2. REGIONAL CONNECTIVITY SCHEME

2.1 The Ministry of Civil Aviation (MoCA), Government of India released the National Civil Aviation Policy 2016 (NCAP 2016). Two of the key objectives of NCAP 2016 are to "enhance regional connectivity through fiscal support and infrastructure development" and to "establish an integrated eco-system which will lead to significant growth of civil aviation sector, which in turn would promote tourism, increase employment and lead to a balanced regional growth". In this regard, MoCA has envisaged a Regional Connectivity Scheme (RCS or the Scheme) for the country.

2.2 The primary objective of the Scheme is to facilitate / stimulate regional air connectivity by making it affordable by supporting

airline operators through (1) concessions by Central Government, State Governments and airport operators to reduce the cost of airline operations on regional routes and (2) financial (viability Gap Funding or VGF) support to meet the gap, if any, between the cost of airline operations and expected revenues on such routes.

2.3 As provided in the NCAP 2016, payment of VGF will be made by the Implementing Agency to the beneficiaries i.e. Selected Airline Operators from the Regional Connectivity Fund (RCF) and the State Governments shall be asked to reimburse the applicable share.

2.4 The Scheme envisages a critical role to be played by the State Governments in terms of granting concessions and reimbursing its applicable share of VGF.

2.5 The Scheme shall be made operational only in States and at airports/heliports (irrespective of ownership by AAI / State Governments / private entities / Ministry of Defence, Government of India) which demonstrate their commitment and support to regional air transport operations by providing concessions as required under the Scheme.

2.6 Responsibility for collection and disbursement of funds under the Scheme, managing the process of seeking reimbursements from State Government for their share of VGF and crediting reimbursement proceeds to RCF will lie with the Implementing Agency.

NOW THEREFORE THIS MOU WITNESSETH AS UNDER:

## 3. OBJECTIVE OF MoU

3.1 All the Parties would make efforts and assist in promoting the Scheme and making it successful.

3.2 The Parties would ensure their commitment and support to regional air transport operations by providing concessions as required under the RCS.

3.3 The State Government would ensure their timely and complete commitment to VGF as required under the RCS.

3.4 All the Parties would make all possible efforts in providing an easy and quicker approvals for increased participation and timely commencement of operations under the Scheme.

3.5 The Parties would abide by the directives issued by MoCA from time to time in respect of the Scheme.

3.6 The Parties shall carry out their respective obligations under the MOU in good faith.

3.7 This MOU lists the areas of co-operation and commitment / support of the Parties with regards to the enhancement of regional air connectivity as per the RCS.

3.8 Parties aim to fix airfare under the Scheme @ Rupees 2500/- per hour (indexed as per section 2.3.6 of the scheme) of the flight relating to VGF seats.

3.9 For the purposes of this MoU:

a) "VGF seats" shall mean the RCS seats as defined in the scheme on which VGF is applicable, and

b) "Non-VGF seats" shall mean the Non-RCS seats as defined in the scheme on which VGF is not applicable.

## 4. SCOPE OF MoU

4.1 As envisaged in NCAP 2016, the operation of the Scheme will be through a market mechanism where airline operators will assess demand on routes; submit proposals for operating / providing connectivity on such route(s); seek VGF, if any, while committing to certain minimum operating conditions; and the same shall be finalized in interaction with other market participants as provided for in the Scheme. The Selected Airline Operator will be extended concessions and support from Central Government as well as the State Government to operate under the Scheme.

4.2 The Parties will meet their respective obligations and will extend concessions / support under the Scheme as below:

4.2.1 Central Government shall administer the Scheme through the Implementing Agency and provide the following support / concessions:

a) Central Government shall provide 80% share of VGF under the Scheme.

b) Central Government shall levy an excise duty at a rate of 2% on Aviation Turbine Fuel (ATF) purchased by the Selected Airline Operator from RCS Airports for an initial period of three (3) years from the date of notification of the Scheme.

c) Central Government shall allow Selected Airline Operators to enter into code sharing arrangements as per the prevailing Air Service Agreements with domestic as well as international airlines.

d) Central Government shall provide concessions on Service Tax on tickets, i.e., abatement of service tax on 90% of the taxable value, for an initial period of 1 year from the date of notification of the Scheme.

4.2.2 State Government will provide the following concessions:-

a) State Government shall reduce VAT to 1% on ATF at RCS Airports and for RCS flights from other airports located within the State for the entire Period of MoU;

b) State Government shall provide minimum land, if required, free of cost and free from all encumbrances for development and expansion of RCS Airports and also provide multi-modal hinterland connectivity (road, rail, metro, waterways, etc.) as required;

c) State Government shall provide security and fire services free of cost at RCS Airports;

d) State Government shall provide, or cause to be provided, electricity, water and other utility services subject to Applicable Law at substantially concessional rates, at RCS Airports; and

e) State Government shall provide 20% share of VGF determined pursuant to this Scheme. The State Government shall need to reimburse its VGF share within 3 months of being asked by the Central Government. In case the State Government does not reimburse, a notice will be sent by the Central Government requiring reimbursement within 1 month of the notice, failing which, the Central Government / Implementing Agency will not consider any further RCS proposals under the Scheme for connecting airports from the State.

f) In addition to the VGF provided under RCS-UDAN for 50% of the seats of RCS flight capacity (limiting 40 seats), State Government shall provide additional benefits to the selected airline operators who are willing to avail the benefits in the form of underwriting the remaining 50% Non-VGF seats of RCS flight (limited to 40 seats). Provided that aforesaid underwriting of Non-VGF seats shall be subject to following Conditions:-

   a) State Government shall underwrite 30% of Non-VGF seats with a condition of reimbursement of vacant seats @ Rs. 2500/- per seat per hour flying and

   b) The State Government shall utilize these underwritten Non-VGF seats for travelling of State Government's Officials at no additional cost.

g) The State Government shall need to continue the concessions as mandated in the NCAP, 2016 and the Scheme document. In case the State Government stops providing the concessions during the Tenure of the Scheme, they will be required to resume the concessions immediately. In case the concessions are not resumed within 1 month from the date of discontinuation, the Central Government / Implementing Agency will not consider

any further RCS proposals under the Scheme for connecting airports from the State.

4.2.3 Obligations of the Implementing Agency

AAI, as the Implementing Agency for the Scheme on behalf of Ministry of Civil Aviation, Government of India, shall be responsible for the following:

a) Receiving proposals submitted by airline operators and taking necessary administrative action for identification of Selected Airline Operator pursuant to the Scheme;

b) Collection and disbursement of funds - In order to facilitate the collection and disbursement of funds under the Scheme, an escrow account shall be established for this purpose with an identified bank. The Implementing Agency shall be authorized to act as the escrow agent with authority to deposit funds as well as withdraw funds from the escrow account for disbursement of VGF to Selected Airline Operators in accordance with this Scheme;

c) Managing the process of reimbursement of applicable share of State Government. As provided in NCAP 2016, payment of VGF will be made to the Selected Airline Operator from the RCF and the State Government will be asked to reimburse its 20% share. The Implementing Agency shall manage this process of seeking reimbursements and crediting reimbursement proceeds to the escrow account; and

d) Any other activities required for implementation of the Scheme, as directed by Ministry of Civil Aviation, Government of India from time to time.

4.3 Obligations / concessions / support under this MoU will be governed by the requirements mentioned under the Scheme and may get amended based on amendments in the Scheme.

## 5. COMMENCEMENT AND DURATION

5.1 The MoU will be effective from the date of its signature and will be valid till the completion of Tenure of the Scheme or will terminate upon mutual agreement to terminate.

## 6. MISCELLANEOUS

6.1 Above concessions on VAT/Service Tax/Excise Duty etc. shall be subject to the prevailing tax regime during the Tenure of the Scheme and Tenure of VGF support, as applicable. Upon transition

to GST, rates will be applicable as duly determined under GST and exemptions / concessions shall be given by the Central Government / State Governments only as permissible under the law.

6.2 Each Party shall keep the other Parties duly informed of any matter, which may have an impact on the implementation and performance of the intended cooperation contemplated between the Parties under this MOU.

## 7. LEGAL SYSTEM AND SETTLEMENT OF DIFFERENCES

7.1 This Memorandum does not generate rights or create any legally binding obligations for the Parties.

7.2 The Parties will settle any difference that may arise in the application of this memorandum via consultations within a spirit of cooperation and friendship.

IN WITNESS THEREOF, the Parties have caused this MOU to be executed in three (3) parts and each one shall be treated as original by their duly authorized representatives, on the date first above mentioned.

Signed by:

For and behalf of President of India

(Usha Padhee)
Joint Secretary
Ministry of Civil Aviation, Government of India

For and behalf of Governor of Uttar Pradesh

(Devendra Swarup)
Director, Civil Aviation,
Government of Uttar Pradesh

For and behalf of Airports Authority of India

(Dr. Guruprasad Mohapatra)
Chairman
Airports Authority of India

Witnesses :-
1-

2-

3-