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A win for aircraft lessors: Aer Lingus prevails against AAI in 27-year legal battle

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Introduction

The Honourable Bombay High Court's (the 'Bombay High Court') ruling in the case of *Airport Authority of India (AAI) v Aer Lingus Ltd and Others 2025 SCC OnLine Bom 1738* marks a pivotal moment in aviation liability disputes, clarifying the boundaries of contractual obligations and judicial accountability. Wherein after many years of defending a case for our client Aer Lingus we have been successful in getting a favourable order from the Honourable City Civil Court of Bombay where the City Civil Court Judge held that Aer Lingus are entitled to Rs 96,25,000 towards reimbursement of Bank Guarantee charges for a frivolous suit filed by Airport Authority of India (AAI) against Aer Lingus, who were a foreign aircraft lessor of aircraft leased to East West Airlines for conducting their business of domestic airlines in India.

Background

Aer Lingus, an Irish entity had leased two aircraft in 1992 to East West Airlines who were air taxi operators and subsequently became the scheduled airlines to operate its aircraft in India for a period of five years. During the lease period, and in the course of business, East West Airlines availed certain services such as landing, parking, x-ray and navigation, etc from AAI in order to conduct its airline operation business against which the AAI raised invoices upon East West Airlines for various charges for such services availed by East West Airlines.

Later, in 1996, Aer Lingus decided to terminate the lease agreement with East West Airlines due to their default in paying the lease rent and flying the aircraft without insurance cover and also decided to proceed to file Suit No 2683/1996 in the Bombay High Court for recovery of its due from East West Airline and gaining repossession of its aircraft.

The Bombay High Court, allowed Aer Lingus to fly their aircraft back to Ireland. Despite such an order from the Bombay High Court, AAI obstructed Aer Lingus from doing the same, since there were pending dues owed by East West Airlines to AAI.

Therefore, Aer Lingus had to file a Writ Petition No 618/1997 before the Bombay High Court seeking permission to fly both aircraft back to Ireland, without incurring any charges that are owed by the East West Airlines to AAI for which Aer Lingus is not liable. The Bombay High Court in the said Writ Petition passed an interim order, allowing Aer Lingus to fly back its aircraft, subject to furnishing a Rs 2 Crore Bank Guarantee, which was duly complied with.

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Thereafter, AAI filed a Suit No 366 of 1997 to recover service charges from East West Airlines, wherein they maliciously included Aer Lingus and the aircraft as parties to the suit after knowing full well that East West Airlines went into liquidation and was not in a position to repay the dues payable.

Meanwhile, when the Writ Petition No 618/1997 was heard together with Notice of Motion No 586 of 1997 in Suit No 366 of 1997 filed by AAI, the Division Bench held that Aer Lingus was not liable for dues of East West Airlines and ordered cancellation of the Bank guarantee.

Despite the findings of the Bombay High Court, AAI chose to contest before the Supreme Court regarding the cancellation of the Bank Guarantee furnished by Aer Lingus wherein the apex court observed that the Bank Guarantee should be kept intact only until disposal of the Suit and also directed that the Suit be decided within one year from its earlier order dated 5 November 2014.

Disposal of the suit (analysis of Honourable City Civil Court Order and Judgment)

Suit No 366 of 1997 was initially filed in the Bombay High Court. However, it was later converted to a Commercial Suit and renumbered as COMS/8/2024 and was thereafter transferred to the City Civil Court at Mazgaon after change in the pecuniary jurisdiction of the Bombay City Civil Court.

The City Civil Court, in its order dated 27 June 2024 on preliminary issues, held that after evaluating all evidence and legal provisions, that Aer Lingus could not be held liable for the service dues that were incurred by East West Airlines during the lease period in the absence of any privity of contract between the lessor and AAI.

After the final arguments, the City Civil Court in its final judgment dated 3 January 2025, it has observed the following:

- The AAI suit against Aer Lingus to be malicious, by placing reliance not only on the laws contended by AAI but also from the (plaintiff) AAI Witness No1's own admission during their cross examination and evidence on record including the Comptroller and Auditor General of India's report showing collusion between AAI and East West Airlines.
- AAI, knowing full well that Aer Lingus, being the aircraft owner, was not liable to pay any dues that were incurred by the Airlines/Air taxi operator (ie, East West Airlines), filed a false and vexatious suit despite the Bombay High Court's ruling in 1996, holding Aer Lingus not liable only because East West Airlines, had undergone liquidation.
- The Honourable City Civil Court imposed exemplary costs of Rs 1 Crore (Rs 10m) for filing vexatious and malicious suit, Rs 50,00,000 as litigation expenses, Rs 96,25,000 as reimbursement for Bank Guarantee charges incurred by Aer Lingus for 27 long years.

Appeal

AAI filed an appeal where the Division Bench of the Bombay High Court has directed Aer Lingus to get the Bank Guarantee cancelled by the Prothonotary and Senior Master of the Bombay High Court and has also imposed a conditional stay for AAI that a decretal amount of Rs 96,25,000 has to be deposited within eight weeks from 25 April 2025 for grant of stay and that Aer Lingus will have liberty to withdraw this amount. However, the Bombay High Court had stayed a portion of vexatious cost of Rs 1 Crore and legal cost of Rs 50,00,000. It is pertinent to note that the granted stay is subject to fulfilment of the obligation of depositing the decretal amount of Rs 96,25,000 by AAI.

Conclusion

This landmark judgment brings much-needed clarity to the liability of aircraft owners/lessors for dues incurred by lessee airlines for availing services from AAI in conducting their airline operation business. In a largely unsettled area of Indian aviation law, the Honourable Court unequivocally held that, in the absence of



Conclusion

This landmark judgment brings much-needed clarity to the liability of aircraft owners/lessors for dues incurred by lessee airlines for availing services from AAI in conducting their airline operation business. In a largely unsettled area of Indian aviation law, the Honourable Court unequivocally held that, in the absence of any contractual obligation, a lessor cannot be made liable for operational charges incurred by the airline. The ruling reinforces key legal principles such as privity of contract and discourages the misuse of judicial process by targeting solvent parties when the actual debtor is in liquidation. By awarding substantial exemplary costs and recognising the suit filed by AAI as malicious for the set of facts and circumstances applicable to this case, the Honourable Court has set a strong precedent protecting bona fide aircraft lessors. This decision not only strengthens confidence in aircraft leasing in India but also aligns with international leasing norms, making it a significant point of reference for future disputes in the aviation sector.

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