फा.सं. ऐरा/20010/ई.आई.सी.आई./सी./मुम्बई/सी.पी.-दो/2016-17/भाग-एक

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण

ऐरा भवन, प्रशासनिक कॉम्पलेक्स,

सफदरजंग एयरपोर्ट,

नई दिल्ली -110003

*****

दिनांक : 30, नवम्बर, 2017

विषय : दूसरी नियंत्रण अवधि (01.04.2016 से 31.03.2021) के लिए छत्रपति शिवाजी अंतरराष्ट्रीय हवाई अड्डा, मुंबई के संबंध में भारतीय एक्सप्रेस उद्योग परिषद के एक्सप्रैस कार्गो संचालन के लिए के टैरिफो के निर्धारण का मामला।

उपर्युक्त विषय पर दिनांक 30.11.2017 का टैरिफ आदेश संख्या 26/2017-18 सूचना और आवश्यक अनुपालन के लिए संलग्न है।

भवदीय,

(वी.के.सचदेवा)

उप महा प्रबंधक (वित्त)

सेवा में,

1. भारतीय एक्सप्रेस उद्योग परिषद, 501 क्रिस्टल सेंटर, रहेजा विहार, चांदवली फार्म रोड, पवई, मुंबई 400072

प्रतिलिपि: सचिव, नागर विमानन मंत्रालय, राजीवगांधी, भवन, नई दिल्ली-110003

F.No. AERA/20010/EICI/C/Mum/CP-II/16-17/Vol-I
Order No.: 26/ 2017-18

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of tariffs for Express Cargo Operations of Express Industry Council of India in respect of Chhatrapati Sivaji International Airport, Mumbai, for the Second Control Period (01.04.2016 to 31.03.2021)

Date of Order: 30th November, 2017.

(This Order supersedes and replaces the Order No. 11/ 2017-18 issued by the Authority on the same subject)

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

1. Contents

2. About EICI and Tariff Determination Process

2.1. Background

2.1.1. Express Industry Council of India (EICI) is engaged in providing Express Cargo / courier processing services in various Indian Airports viz Mumbai, Delhi, Bangalore and Chennai (Chennai operations were stopped in 2016-17).

2.1.2. As per information furnished by EICI, "EICI is a non-profit Section 25 company without any Share Capital". The company is formed with membership from over 25 entities providing Express cargo/ courier services.

2.2. Agreement with Mumbai International Airport Limited (MIAL)

2.2.1. In the Consultation Paper No. 10/2017-18 dated 20th June 2017, the Authority had noted that that the validity period of the Agreement that EICI had entered into with MIAL had expired and that EICI informed that discussions with MIAL are underway for renewal of the Agreement.

2.2.2. The Authority also noted that EICI's continuance to operate the Express Cargo/ Courier processing services is dependent on the renewal of license from MIAL.

2.2.3. After issue of Consultation Paper, EICI has submitted that the agreement with MIAL is extended for a period of one year from 1st March 2017 to 28th February 2018, continuing with the already prevailing Minimum Annual Guarantee and Handling charges and an increase in lease rentals by 10%. EICI has stated as follows:

"1.3.1 Agreement between EICI and MIAL had been renewed w.e.f 1st March 2017 to 28th February 2018. We are enclosing a copy of the letter received from MIAL, as per which there has been a 10% increase in the License fee. Please note that there is an additional royalty to be paid which is 30% of the expenses incurred in engaging services of any vendors at the warehouse including inter alia loading, unloading, housekeeping, data entry etc. This is in addition to Rs. 8.4 crores which is the Minimum Annual Guarantee to be paid to MIAL."

2.3. Tariff determination for EICI for first control period

2.3.1. The Authority had evaluated submissions made by EICI in the first control period and has issued 3 Orders relating to activities carried out in Chhatrapati Sivaji International (CSI) Airport, Mumbai as given below:

Table 1: Details of Orders issued by the Authority for EICI-Mumbai

Order	Decision summary
26/2013-14 dated 4th April 2013	ATP for 2011-12, 2012-13, 2013-14
19/2015-16 dated 24th June 2015	Continue ATP of 2013-14 for the remaining years
14/2015-16 dated 3rd November 2015	Revision in rates for Customs Charges and un-recouped Customs Charges

2.4. **MYTP Submission by EICI for second control period, Consultation Paper and Order No 11 issued**

2.4.1. EICI had submitted the MYTP for the second control period in 2015 and had subsequently provided additional information and clarifications sought by the Authority on 6th June 2016, 3rd May 2017 and 20th May 2017.

2.4.2. The Authority had analysed the submissions made by EICI and issued Consultation Paper No. 10/2017-18 dated 20th June 2017 detailing EICI's submissions, Authority's analysis and tentative proposals.

2.4.3. Comments to the Consultation Paper were submitted only by EICI and no other Stakeholder had submitted comments to the Consultation Paper.

2.4.4. The Authority had carefully considered comments made by EICI on the Consultation Paper. The tentative position of the Authority in its Consultation Paper No 10/2017-18 dated 20th June 2017, issue-wise comments of EICI on the Consultation Paper, Authority's examination and its decisions were given in the relevant sections of the Order No 11/ 2017-18 issued by the Authority on 14th August 2017 ("Order No. 11").

2.4.5. Order No. 11 took into account the Proposals of EICI, written submissions received from EICI and examination by the Authority with reference to Authority's guidelines on Airport Operators and other Independent Service Providers.

2.5. **Representations from Stakeholders and Stakeholder Consultation Process**

2.5.1. After the issue of Order No. 11, Courier Association of India ("CAI") had submitted vide letter dated 28th August 2017 with certain facts and figures, seeking reversal of the Order issued by the Authority.

2.5.2. Even though the Consultation Paper seeking comments from stakeholders was put up in the website of AERA for around 55 days before the issue of the Order, considering the issues raised by CAI, the Authority had, vide Public Notice 23/ 2017-18 dated 31st August 2017, kept the Order issued in abeyance and called for a meeting of the Stakeholders on 21st September 2017 to seek comments on the issues raised by CAI.

2.5.3. The Authority had, vide Public Notice 29/ 2017-18 dated 28th September 2017, kept the Order in abeyance till 31st October 2017 and had asked the stakeholders to submit their comments on the Consultation Paper or before 5th October 2017. This was followed by Public Notice 33/ 2017-18 dated 30th October 2017 keeping the Order in abeyance till 30th November 2017.

2.5.4. Further to the Stakeholder meeting, the Authority has received comments from Air Travellers Association on 28th September 2017 and a letter from CAI seeking certain details from the Authority. The Authority has also subsequently received an e-mail response from CAI on 27th November 2017.

2.5.5. The Authority has also received a letter from EICI on 3rd September 2017 and two letters from EICI dated 3rd November 2017.

2.5.6. The Authority has not received submissions from any other stakeholders on the Consultation Paper.

2.6. Current Order

2.6.1. The Authority, in this Order, has carefully re-examined the matter and considered comments made by EICI on the Consultation Paper, submissions made by CAI and Air Travelers Association along with key submissions made by the stakeholders in the meeting, the tentative position of the Authority in its Consultation Paper No 10/2017-18 dated 20th June 2017, issue-wise comments of EICI and others on the Consultation Paper, Authority's examination and its decisions are given in the relevant sections of this Order.

2.6.2. Building block wise analysis are tabulated in the Order with each Para listing down

2.6.2.1. EICI's MYTP submissions

2.6.2.2. Authority's analysis as detailed in Consultation Paper 10/ 2017-18

2.6.2.3. Comments received from EICI and other stakeholders

2.6.2.4. Authority's analysis of comments received from EICI and other stakeholders

2.6.2.5. Authority's decisions

2.6.3. Decisions taken by the Authority on various issues in respect of EICI are summarized in Para 10 below of the Order.

2.6.4. This Order supersedes and replaces the Order No. 11/ 2017-18 issued by the Authority on the same subject.

3. Financials for 2011-12 to 2016-17

3.1. MYTP Submissions made by EICI

3.1.1. The Authority noted that the Financial Statements of EICI are prepared on a consolidated basis. The Authority had asked EICI to submit the audited Annual Compliance Statement (ACS) for the first control period FY2011-FY2016 and uncertified statement for 2016-17.

3.1.2. Details provided by EICI for Mumbai Operations in June 2017 considering unaudited Financial statement for March 2017 are summarized below:

Table 2: P&L Summary 2011-12 to 2016-17 (Amt. in Rs.)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue from Facilitation fee	195,850,417	189,628,360	342,353,784	343,838,726	205,020,355	156,534,087
Revenue X-Ray Charges	4,631,197	40,874,158	6,864,640	23,056,663	29,343,797	29,205,544
Revenue - Customs Cost recovery income				68,087,776	69,297,510	107,263,434
Revenue from Detention	43,156,974	37,300,095	44,788,028	47,750,274	77,186,829	76,176,475
Sub Total	**243,638,588**	**267,802,613**	**394,006,452**	**482,733,439**	**380,848,491**	**369,179,540**
Revenue from Rent/ Others	4,941,272	5,922,443	6,763,968	13,872,603	15,383,795	17,081,317
Revenue from Others	11,799,111	11,679,518	15,777,753	26,905,674	25,685,903	7,350,701
Sub Total	**16,740,383**	**17,601,961**	**22,541,721**	**40,778,277**	**41,069,698**	**24,432,018**
Total Revenue	**260,378,971**	**285,404,574**	**416,548,173**	**523,511,716**	**421,918,189**	**393,611,558**
Staff Cost	12,672,553	15,056,558	18,909,796	20,695,988	27,029,843	27,860,212
Other Operating Expenditure	156,175,897	274,804,684	326,574,417	372,770,633	451,992,128	470,485,898
Depreciation	20,965,285	20,719,470	32,854,382	45,915,367	8,557,868	12,431,561
Sub Total	**189,813,735**	**310,580,712**	**378,338,595**	**439,381,988**	**487,579,839**	**510,777,671**
Profit before Tax	**70,565,236**	**(25,176,138)**	**38,209,578**	**84,129,728**	**(65,661,650)**	**(117,166,113)**
Provision for Tax	29,367,042	29,367,042	24,624,879	73,636,864	23,045,291	
Profit after Tax	**41,198,194**	**(54,543,180)**	**13,584,699**	**10,492,864**	**(88,706,941)**	**(117,166,113)**
Total Cargo Volume (KG)	**41,238,186**	**39,250,869**	**47,951,664**	**56,687,672**	**35,745,073**	**27,645,242**

3.2. Authority's analysis on Financials submitted by EICI detailed in the Consultation Paper

3.2.1. The Authority noted significant swings in Personnel costs and Operating cost. The Authority sought explanation for higher staff cost in the FY 2015-16 in comparison to FY 2014-15. EICI had submitted that the increase was mainly due to new recruitment of employees at senior positions and increments to the existing staff. Further, EICI had submitted that the increase in other operating cost (OPEX) in FY 2015-16 compared to FY 2014-15 was mainly due to increase in additional loaders and security staff as mandated by Customs and Annual Maintenance charge (AMC) for EDI project of the customs. The Authority also noted that the Tax numbers were not commensurate with the quantum of profit before tax numbers stated above. Also, the Non-

Regulated Revenue (which comprises Membership fee, Dividends, Interest Income, Auction Revenue etc.) had reduced considerably in 2016-17 as compared to the previous years.

3.2.2. The Authority noted that EICI has posted a loss for Mumbai Operations in FY2012-13, 2015-16 and 2016-17. The Authority was given to understand that this is due to significant drop in volumes.

3.3. EICI Comments on Authority's observations

3.3.1. EICI has stated as follows:

"3.1.3 Financial details provided by EICI for the period 2011-12 to 2015-16 are the audited figures and for 2016-17 are the provisional unaudited figures. We will submit the audited figures once the audit is completed along with the Annual compliance statement, which is expected to be over by 31st July 2017. It may be noted that Customs cost recovery income has been considered as revenue for the calculations however the same being a pass through should not be considered as revenue or income"

"3.1.4 We have submitted the Financials location-wise. However the provision for taxation is for the company and accounted at Mumbai location where our Head Office is located. So, the provision for taxation is on the consolidated income of the company, therefore the tax numbers will not commensurate with the quantum of profit before tax of Mumbai location only. As far as the reduction in Non-Regulated Revenue in 2016-17, we state that the 2016-17 figures are provisional and we will give our comments after we have the audited numbers in hand"

"3.1.5 We confirm that the loses for 2012-13, 2015-16 and 2016-17 are due to significant drop in volumes. Further, we would like to state that this trend is continuing in the FY 2017-18 also."

3.4. Stakeholder Comments on the Financials submitted by EICI

3.4.1. CAI has, in its letter dated 28th August 2017 stated as follows:

"The Authority is relying on submissions made by EICI with regards to the statement of accounts and reporting of tonnage by EICI. Details provided by EICI for Mumbai operations are inconsistent. With there being an inverse relation between drop in tonnage and increase in revenue. ......It may be noted that as per EICI's own reporting there has been an average growth of 11% Y-O-Y in export tonnage. In 2011-12 export tonnage was 11056 MT and in 2016-17 it stood at 20436 MT and increase of 71%. It is therefore perplexing as to how the authority sanctioned a generous 165% hike in export facilitation charges favouring EICI.

EICI even though being a section 25 company has seen an increase in staff cost from Rs. 12,672,553 to Rs. 27,860,212 in 2016-17 an increase of 120% in three years. It is pertinent to question EICI as to the justification in increase in salaries at a time when itself is facing losses and drop in tonnage as per their report. EICI has attributed the increase in staff cost is mainly due to *new recruitment of employees at senior positions and increment to existing staff, did the Authority concern itself to question EICI as to the logic of increments when itself was suffering losses and if the new recruits at senior positions were appointed especially for Mumbai terminal or to look after affairs of EICI at an All India level.*

EICI has reported an increase in other operating expenditure (Opex) from Rs. 156,175,897 in 2011-12 to Rs. 470,485,898 in 2016-17 an increase of 200% or Rs. Thirty One crores. This increase is attributed to appointment of additional loaders, security staff and AMC for EDI project. It may be noted that EICI does not have any loaders and the loading/ unloading work is outsourced to CSC and so is the job of security at the courier terminal. Increase in Opex is a major factor in losses incurred by EICI inspite of strong growth in revenue and it seems absurd the Authority has bought in to such poor alibi given by EICI to hiring a few loaders and guards and paying Annual Maintenance Contract for a software that has failed to even work properly yet. The authority has not provided a copy of Annexure 2 with its Order.

Moreover the Opex reported by EICI seems to increase YOY even in years where tonnage has dropped significantly. In 2015-16 tonnage dropped by almost 21000 MT a drop of 63% compared to the previous year yet the Opex increased by almost Rupees Eight Crores a hike of 21% compared to the previous year. It appears the Authority has failed in carrying out due diligence and has not taken the trouble to delve deeper into the inconsistencies in EICI's reports, this callousness of the authority has resulted in a bumper tariff hike for EICI ....

... For the past 10 years EICI has been struggling to implement EDI, the system is ill-conceived and ill-equipped to handle huge volumes resulting in frequent system outages thus causing a huge backlog of uncleared cargo"

3.4.2. Air Travellers Association has stated that:

"The main reason for increase in tariff claim is due to decrease in capacity utilisation. In such situation EICI should plan for adjustment and reduction of Infrastructure Expenditure.

Overhead expenses – These expenses are very high at EIC-Mumbai in comparison to their own stations at other locations. Hence, these expenses should be reduced."

3.4.3. CAI has submitted its response to the Authority vide e-mail dated 27th November 2017 wherein they have stated as follows:

"The Authority vide its Order No. 11/2017-18 dated 14.08.2017 has approved a rate of Rs.24/- as facilitation charges for EICI at Mumbai terminal coupled with high cost of Customs Recovery charges which is only being charged at Mumbai, would render the operations at Mumbai un-viable and would put the livelihoods of our Member Companies in jeopardy as the business would shift to other ports where our member companies are not authorised to operate. The Authority may kindly review the following table and gauge the huge difference between the facilitation fee in Mumbai and other ports...." *"The authority has stated vide its letter dated 21/11/2017 "FRoR is*

calculated to provide 10% margin on total revenue to enable EICI to build reserves for contingencies and for future capital expenditure when required." We would like to bring to your kind attention that the 10% return has allowed EICI to build up reserves & surplus of Rupees Fifty Six Crores which is more than adequate for them to run the terminal for 6-7 years. Allowing them to make such huge surplus at the cost of survival of the small and medium Indian Courier Companies is not acceptable and the Authority must review this."

"We urge the Authority to examine and review in detail the following expenditure as few examples of EICI's wastages. These expenditures are highly objectionable and increasing multi fold year on year:

1. *CONCESSIONAL AGREEMENT WITH MIAL*
2. *PAYROLL EXPENDITURE*
3. *LEGAL EXPENDITRE*
4. *SECURITY CHARGES*
5. *TRAVELLING AND CONVENAYNCE EXPENDITURE*

3.5. EICI submission post Order No. 11

3.5.1. The Authority has also received a letter from EICI on 3rd September 2017 and two letters from EICI dated 3rd November 2017 and the consolidated financial statement for 2016-17 and the P&L of Mumbai for 2016-17 duly certified by a Chartered Accountant.

3.5.2. EICI in its letter dated 3rd September 2017 has stated that Authority's decision to keep the Order in abseyance will set a wrong precedent and had requested that the tariff be finalised at the earliest.

3.5.3. EICI, in its letter dated 3rd November 2017 had submitted that continued losses were incurred in Mumbai Operations and had stated as follows:

"...Please kindly take on record that we will be forced to close down the Express Terminal at Mumbai by 30th November 2017 and will have to give advance prior notice to Customs and the Users and other authorities which we will be doing by 15th November, 217 as our present financial position does not permit us to continue any longer in the absence of revision of the Tariff. Our finances are in a very precarious situation and we cannot afford to incur any further losses. We have also informed the stakeholders accordingly..."

3.6. Authority's analysis of EICI and other Stakeholders comments

3.6.1. The Authority has carefully reviewed the comments of CAI and Air Travellers Association and the submissions made by EICI. The Authority had also commented in its Consultation Paper, on the significant increase and fluctuations in Personnel and Operating costs.

3.6.2. The Authority noted in the Consultation Paper that EICI had not submitted the audited financial statements for 2016-17. Authority had sought this information from EICI and EICI had submitted the consolidated financial statement for 2016-17 and the P&L of Mumbai for 2016-17 duly certified by a Chartered Accountant in November 2017. Tabulation of P&L for the period 2011-12 to 2016-17 based on the certified statements and details is as follows:

Table 3: P&L data from certified ACS / Financials submitted by EICI

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue from Facilitation fee	19,58,50,417	18,96,28,360	27,82,04,311	34,38,38,726	20,50,20,355	15,65,34,087
Revenue X-Ray Charges	2,27,260	3,48,49,776	2,50,48,403	2,30,56,663	2,93,43,797	2,92,05,544
Revenue - Customs Cost recovery income	-	-	3,91,01,071	6,80,87,766	6,92,97,510	10,72,63,435
Revenue from Detention	4,31,56,974	3,73,00,095	4,47,88,028	4,77,50,274	7,71,86,829	7,61,76,481
Sub Total	**23,92,34,651**	**26,17,78,231**	**38,71,41,813**	**48,27,33,429**	**38,08,48,491**	**36,91,79,547**
Revenue from Rent	49,41,272	59,22,443	67,63,968	73,34,073	1,14,89,579	1,24,91,128
Interest on Fixed Deposits	1,07,91,937	1,06,05,317	1,50,57,642	2,61,50,048	2,47,40,160	1,75,61,549
Revenue from Membership	24,90,000	23,90,000	23,55,000	24,70,000	26,95,000	27,05,000
Other Income	29,21,111	47,08,583	52,29,751	48,24,156	21,44,959	28,14,166
Sub Total	**2,11,44,320**	**2,36,26,343**	**2,94,06,361**	**4,07,78,277**	**4,10,69,698**	**3,55,71,843**
Total Revenue	**26,03,78,971**	**28,54,04,574**	**41,65,48,174**	**52,35,11,706**	**42,19,18,189**	**40,47,51,390**
Staff Cost	1,26,72,553	1,50,56,558	1,75,74,580	2,06,95,988	2,70,29,843	3,24,11,489
Other Operating Expenditure @	15,39,84,959	27,48,04,687	32,65,83,758	37,20,45,992	45,19,54,948	47,39,32,266
Finance Cost	21,90,939		13,25,875	7,24,641	37,180	26,128
Depreciation	2,09,65,285	2,07,19,470	3,28,54,382	4,59,15,367	85,57,868	2,82,93,456
Sub Total	**18,98,13,736**	**31,05,80,715**	**37,83,38,595**	**43,93,81,988**	**48,75,79,839**	**53,46,63,339**
Profit before Tax	7,05,65,235	(2,51,76,141)	3,82,09,579	8,41,29,718	(6,56,61,650)	(12,99,11,949)
Impairment						(10,63,39,467)
Provision for Tax	2,93,67,042	2,93,67,042	2,46,24,879	7,36,36,864	2,30,45,291	(76,46,854)
Profit after Tax	**4,11,98,193**	**(5,45,43,183)**	**1,35,84,700**	**1,04,92,854**	**(8,87,06,941)**	**(22,86,04,562)**
@ Of the above Customs cost recovery charges	351,76,064	898,57,860	768,78,276	838,83,793	720,11,505	836,82,870

3.6.3. The Authority notes that the unaudited financial for 2016-17 submitted earlier and the audited financials submitted for 2016-17 vary in Overall expenditure - specifically the Expenditure on account of Depreciation is higher in the audited statements. The Authority also notes that an amount of Rs. 10.63 crores has been written off as Impairment of asset in the Financial statements. The Authority understands that the impairment and the increase in depreciation both relate to the Hardware/ software for Customs which has been capitalised and also impaired.

3.6.4. The Authority understands from its earlier discussions with EICI that the development of software was as requested by Customs Department and the amount of cost incurred was claimed by EICI from Customs Department. The Authority also understands, from discussions with EICI that, Customs has notified this as the asset of Customs. The Authority also notes that in the previous discussions EICI had stated that the surplus earned from the past of approx. Rs. 58 crores was being used for the said Customs asset and for possible additional employee cost claims from Customs, which is the reason why the Authority has not evaluated the past period profit and any over recovery from the same for adjustment in the current control period.

3.6.5. The Authority has noted, from the audited financial statements of 31st March 2017 submitted by EICI that a total of Rs. 14.27 crores (consolidated – all stations together) has been capitalised under Software and the following was also noted:

"30. During the financial year 2013-14, the Company had made a provision for impairment amounting to Rs. 81,977,297 from Capital Work in Progress (CWIP) in relation to amount spent by the Company on Automated Clearance System (EDI) Project. EDI Project is jointly developed by the company with India Customs. During the year on project going live, the total cost is capitalised. Further, the Company had made an additional provision for impairment amount to Rs. 106,339,467 totaling to Rs. 188,316,764 from Fixed Assets based on Management's review of potential economic benefit in accordance with Accounting Standard 28 -Impairment of Assets. The provision of impairment is created since the company is in the process to handover EDI Project to Indian Customs subject to their consent / approval"

3.6.6. The Authority will take a view on this matter after ascertaining the complete nature of the transaction, reason for impairment and the reasonableness of the amount spent on developing the software.

3.6.7. The Authority has carefully reviewed the submissions made by CAI and their concern over the increase in Staff cost and Operating Expenditure. Authority notes that total costs have increased from around Rs. 19 crores in 2011-12 to Rs. 53 crores in 2016-17 (Around three fold from Rs. 15 crores in 2011-12 to Rs. 45 crores in 2016-17 – without considering Customs Staff cost recoveries).

3.6.8. While the Authority understands that one of the key elements of cost and increase in cost is the Minimum Guarantee and other charges paid to the Airport Operator, detailed reasoning explaining the steep increase in costs, elementwise, especially in light of reduction in volumes, is not available to the Authority.

3.6.9. The Authority also notes from EICI's submissions that the fee / rentals paid to Airport Operator is high and has not been reduced considering the adverse changes in business scenarios.

3.6.10. The Authority decides to undertake a study on both Capital Expenditure incurred (which, if it has been incurred due to it being mandated by Customs, would need to be compensated to the Service Provider) and the Operating Expenditure incurred by EICI relating to Mumbai Airport by engaging a consultant.

3.6.11. The Authority also notes that tariff determination for EICI Mumbai is pending for a long time and cannot continue without a re-determination of tariff due to the recent changes in conditions as elaborated in this Order.

3.6.12. In view of the same, in the interest of continuity of business, the Authority decides to notify the tariff determined as part of this Order as an "Adhoc" tariff applicable for a period of 1 year from the effective date.

3.6.13. The Authority will, on completion of the study by the consultant and submission of report, suo-moto revise the tariff, based on the results of the study, after consultation with the stakeholders even before the completion of 1 year from the effective date if necessary.

3.6.14. Considering the high charges paid by EICI to the Airport Operator, the Authority urges EICI to engage with the Airport Operator and evaluate the possibility of reducing the rentals/ Minimum Guarantee and keep the charges payable to the Airport Operator variable based on the volume/ load handled. The Authority also urges EICI to carry out a bottom-up review of all costs and evaluate possibilities of reduction/ rationalisation of costs and where costs have been imposed by certain entities, the same shall be re-negotiated with the concerned Authorities.

Decision No. 1. Regarding Tariff Order

1.a. Based on the material before it and its analysis, the Authority decides:

- **i. To notify that the tariff determined by this Order as "Adhoc" tariff applicable for a period of 1 year from the effective date.**
- **ii. To carry out an independent study on the Capital Expenditure and Operating Expenditure incurred by EICI-Mumbai.**
- **iii. To urge EICI to carry out a review of all costs, re-negotiate costs imposed by certain entities and evaluate possibilities of reduction/ rationalisation of costs.**

4. Tariff Determination Philosophy

4.1. Authority's Proposals on Tariff Determination

4.1.1. The Authority noted that in addition to EICI, other Cargo service providers such as Mumbai International Airport Limited (MIAL), Cargo Service Centre (P) Limited (CSC) operate in CSI Airport, Mumbai.

4.1.2. The Authority noted that Tariff for First control period was determined by the Authority under light touch method considering the service as **Material and Competitive**.

4.1.3. While other Cargo service providers operate in CSI Airport, the Authority noted that services relating to Express Cargo / Courier were not performed by the other service providers. These services relating to courier/express cargo were provided only by EICI. The Authority therefore proposed to consider the service as Material and not competitive. Considering that the user agreements are between the Entity and its members who are the majority of the users of the service and in the absence of a structured agreement for the same (the Authority notes that the rates are informed to the members in a consultation meeting and discussed), the Authority proposed to determine tariff under "**Price Cap**" mechanism.

4.1.4. The Authority also noted that the Regulatory Asset base in case of courier operations is not significant. (As per certified Annual Compliance statement provided for 31st March 2016, the Net block of Fixed Asset is Rs. 4.74 Crores). These activities are in the nature of services and unlike Airports, which necessitate large scale infrastructure/ assets to be created on which a return on RAB is proposed. Also, the nature and quantum of assets in the books of the service provider may vary based on the nature of agreement with the Airport Operator, nature of licenses and manner of sourcing assets (buying out / leasing etc.). Hence, instead of return on RAB, the Authority proposed to consider **"Margin on Revenue"** as the mechanism for providing return to the Express Cargo service provider.

4.1.5. The Authority noted that EICI has been charging Customs Cost Recovery charges at the determined rates. EICI had informed that this charge is only a cost recovery of the fee levied by Customs (Customs cost Recovery) and charge for actual re-couping of additional charges levied by Customs (Customs Cost Re-coup charges). Hence, the Authority proposed to consider these charges as a direct cost recovery additionally, without providing any margin on the same. Hence, the Aggregate Revenue Requirement that the Authority proposed to compute will be without considering the Customs Cost and charge proposed for recovery of the same.

4.1.6. Accordingly, the Authority had proposed in Consultation Paper 10/ 2017-18 as follows:

4.1.6.1. To determine tariff under "Price Cap" methodology, considering return on Revenue.

4.1.6.2. To not consider "Customs Cost" and related "Customs Cost Recovery" and "Customs Cost Re-coup" charges for the purpose of computing Aggregate Revenue Requirement (ARR).

4.2. EICI Comments on Authority's Proposals on Tariff determination

4.2.1. On Tariff determination methodology, EICI has stated as follows:

2.1.3 While EICI is open to any mechanism of determination of Tariff, it is requested that the mechanism should take into account the ground realities which include several unpredictable factors which lead to a sudden fall in volumes. In case we are not provided the flexibility to alter our rates immediately, the financial viability of the operations in threatened. AERA should encourage such cooperative efforts of users rather than penalize them by delaying their proposals. We have been operating at the same tariff which was approved in 2013 and no revision was permitted except for customs cost recovery charges, despite a major fall in volumes. EICI being a cooperative of users has always kept the rates to the bare minimum to ensure viable operations while providing quality services despite several constraints. As profit is not our driving motive, despite being given an approval for Rs. 19 per kg for imports and Rs. 20 per kg for exports at Bangalore, the actual rates charged by EICI at present are Rs. 9 for exports and Rs. 8 per kg for imports.

It will be seen that EICI is charging a third of the rates approved by AERA and hence there is a strong case for AERA to ensure either of the following:

(a) The price cap should be liberal and kept high as long as it is supported by an annual compliance statement showing that the profits are not high

OR

(b) AERA should ensure that any drastic changes threatening the viability of the operation should be immediately considered and tariff revision allowed within a time bound manner no later than 60 days from submission of proposal.

2.1.4 We are in agreement with the proposed approach of margin on revenue given the nature of operations which are not asset driven but service driven and the major costs are of operations and not just asset driven.

2.2.2 While we agree that customs cost recovery charge is pass through and EICI does not want to retain the same, there is an administrative cost associated with collection and payment. Further, the charges are to be paid three months in advance and there is a financial cost to the same which deprives EICI of bank interest from its revenues and this too should be taken into account, while calculating the margin of revenue.

4.2.2. On the methodology of determination of Aggregate Revenue Requirement (ARR), EICI has stated as below, on consideration of Non-Regulated income included in the total regulated income:

2. Further the CP while recording the income includes the non-regulated income of EICI which should not be included in the income. The break-up of non-regulated income is as under which has further been broken up as income from aeronautical sources i.e. if it has some nexus with *the airport and non-aeronautical income i.e. from sources with non nexus with the airport e.g. membership subscription fees, interest income and sale of scrap etc.*

Please find below the break-up of Aeronautical & Non-Aeronautical Income:

Particulars	***2016-17 Rs.***
Aeronautical Income	
Revenues from User Access Fees	*1,24,91,128*
Revenues from Auction Proceeds	*18.75.189*
TOTAL	***1,43,66,317***
Non-Aeronautical Income	
Revenues from Membership Subscription	*27,05,000*
Revenues from Interest Income	*1,72,60,244*
Revenues from Any. other sources – sale of old office equipment and scrap at headquarters	*1,75,484*

The non-aeronautical non-regulated income should hence be excluded from the income in the calculations.

5. It will be seen from the above that the income is less than the expenditure if the rates proposed by AERA are applied. In fact, in the first year itself there is a loss of INR 26,19,16,106 based on actual figures. If the revised rates proposed by AERA in the CP are applied then we will be making a loss each year as will be seen from the following table.

Year	*Regulated Income excluding cost recovery, unrecouped cost recovery and non-regulated income (INR)*	*Total Expenses excluding Cost Recovery & Depreciation (INR)*	*Surplus / (Deficit) before depreciation and tax (INR)*
2017-18	*44,19,45,357*	*44,52,27,146*	*(32,81,789)*
2018-19	*47,85,83,849*	*47,63,93,047*	*21,90,802*

Hence it is most humbly requested that these changes may kindly be incorporated in the CP and the revised rates worked out as per the rates suggested in our proposal.

3.5.3 Revenue from Non-Regulated Services consists of Membership Subscription, Dividend and interest on investments should not be considered for working of ARR since this is a non-operating income and does not form part of my operating expenses. Please see comments in point 2 above"

4.3. Stakeholder comments on Tariff determination

4.3.1. CAI has, in its letter dated 28th August 2017 stated as follows:

"The Authorized Couriers through its Association (CAI) wish to bring to your kind notice that EICI has induced Authority to hike the tariff starting from September 2017 to the tune of 400% of the existing tariff rate in Mumbai. However, no such hike in tariff was considered for other locations as no such proposal for hike was

made by EICI. This is a deliberate act on the part of EICI to push the small courier out of the business as the small couriers are having operations / business only at Mumbai Terminal whereas, the members of EICI who are also Authorised Couriers are having operations at all Indian Airports (where courier services are allowed). This is because majority of their members (MNC's) have their clearance hub at Delhi and Bengaluru. The same ratio of hike in tariff has been proposed by EICI for next five years. Such a drastic hike in Tariff will adversely affect the EXIM trade. Authority is only looking at Courier terminal in Mumbai while disregarding the basic fact that trade will shift to other ports due to high operating costs in Mumbai"

4.3.2. Air Travellers association has stated that:

"It is suggested that the handling rates may be revised annually instead of revising it after a long interval which becomes very high in comparison with the previous rates in vogue"

4.4. Authority's analysis of EICI and other stakeholder comments

4.4.1. The Authority has carefully reviewed the comments made by EICI, CAI and Air Travellers Association. The Authority notes that EICI has confirmed the methodology of determining revenues based on "Return on Revenue" model, and also considering Customs Cost Recovery charges and the Revenue for the same as a pass-through without profit.

4.4.2. The Authority notes that earlier Orders were passed for extension of the same tariff in last 2 years of the first control period, after due consideration and evaluation, which is detailed in the relevant Orders. The Authority is cognizant of the situation in Mumbai and the huge drop in volumes. The Authority had therefore stated in the CP that the actual trends of growth in volumes cannot be ascertained and hence tariff was proposed to be determined for the period till end of next year after which EICI should submit the necessary documents and details for re-evaluation of tariff by which time the traffic growth trends will also be known.

4.4.3. The Authority had determined a mechanism of tariff determination and should there be any adverse change in business scenarios, the same will be trued up and re-evaluated at the time of tariff review. While the Authority understands the business scenario and the uncertainty in the volumes, tariff cannot be kept "liberal and high" but has to be based on a methodology and the computations that will derive the revenue numbers. The Authority would evaluate the ACS and the update to the MYTP which is to be submitted by EICI along with necessary information, documents and clarifications.

4.4.4. The Authority notes that EICI has proposed to exclude certain parts of the "Non-regulated" income from the ambit of tariff determination. The Authority notes that EICI is a not for profit organisation which also undertakes self-regulation. Having stated that, the Authority notes that excluding certain portions of income as "non-regulated" would lead to the profit accruing to EICI to be higher than the rate of return proposed by the Authority, which would also mean higher charges to the users.

4.4.5. The Authority also notes that EICI has an accumulated surplus reserves as at 31st March 2016 of approx. Rs. 58 crores, which is a result of the past operations of the entity. The Authority therefore notes that any earnings arising from EICI's operations (including the Interest income, which is out of the surplus cash invested, which would have predominantly originated from past profits) should also be used to subsidise the user charges.

4.4.6. The Authority notes that other heads of income such as "Membership Fees" and "Miscellaneous Expenses – Sale of Equipment/ scrap" etc. would also be indirectly related to the main operations of Courier Cargo handling. The Authority also notes that all expenditure incurred by the unit have been factored for the purpose of computing the Aggregate Revenue Requirement.

4.4.7. Hence, the Authority is of the view that "Non-Regulated Revenue" as submitted by EICI has to be taken as Aero Revenue and deducted from computation of ARR.

4.4.8. As for computation of the surplus/ deficit for 2017-18 and 2018-19 as stated by EICI, the Authority understands that EICI could have computed this without considering revenue from "Non-Regulated Revenue" which, as detailed by the Authority in the paragraphs earlier, would need to be considered for the computation of ARR.

4.4.9. The Authority notes EICI's submissions on administrative cost incurred in managing the Customs Cost Recovery charges. As per Authority's analysis detailed earlier, any income earned by EICI (including interest) would be considered as Revenue for computing the ARR. Also, all costs of operations are considered by the Authority to provide a return. Should there be a loss of interest, the same is not considered for income computations and hence effectively the desired return on revenue is maintained.

4.4.10. The Authority notes CAI's submissions. Individual comments relating to the different sections have been dealt with by the Authority in appropriate sections.

4.4.11. The Authority has noted the submissions made by Air Travellers Association. The Authority has also proposed a review of the rates after a year.

Decision No. 2. Regarding Tariff Determination Philosophy

2.a. Based on the material before it and its analysis, the Authority decides:

- **i. To determine tariff under "Price Cap" methodology, considering return on Revenue. To consider the tariffs determined under the current order as effective till 1 year from the date of Order.**
- **ii. To not consider "Customs Cost" and related "Customs Cost Recovery" and "Customs Cost Re-coup" charges for the purpose of computing Aggregate Revenue Requirement (ARR).**

5. Traffic Volume

5.1. EICI submissions on Traffic volumes and estimates

5.1.1. EICI had stated that the Import Cargo volumes have significantly reduced in the last 2 years from July 2015 and this has resulted in losses, as the same rates per KG were being collected on the lower volumes.

5.1.2. Analysis of traffic over the past period and the volume projected in future (as submitted in MYTP form) is as below:

Table 4: Cargo volume details - Past and Projections

Particulars	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Cargo Volume										
Export Cargo (MT)	11,956	13,252	14,976	16,919	18,578	20,436	22,479	24,727	27,200	29,920
Import Cargo (MT)	28,410	25,999	32,995	39,764	17,092	9,198	9,658	10,141	10,648	11,180
Total Cargo (MT)	**40,366**	**39,251**	**47,972**	**56,683**	**35,670**	**29,634**	**32,137**	**34,868**	**37,847**	**41,100**
Growth rate - Export Cargo (%)		11%	13%	13%	10%	10%	10%	10%	10%	10%
Growth rate - Import Cargo (%)		-8%	27%	21%	-57%	-46%	5%	5%	5%	5%

5.2. Authority's analysis of Traffic volumes submitted by EICI detailed in Consultation Paper

5.2.1. The Authority noted that the total traffic volume submitted in ACS varies in a minor way from the break-up submitted in the MYTP. The Authority proposed to use the MYTP submission made for evaluation purposes.

5.2.2. The Authority noted that there has been a sharp decrease in the traffic volumes for Import Cargo in Mumbai. The Authority was given to understand that this was due to cancellation of licenses of certain operators and increased Customs inspection procedures.

5.2.3. The Authority noted that EICI had requested a significant increase in the Facilitation charge and this was due to the reduction in volumes. The Authority noted that EICI had projected a 10% growth in Export Cargo which was in line with the growth rate over the past 2 years. The Authority noted that EICI has projected a 5% increase in Import Cargo volumes; the actual trends in this can only be evidenced in the coming years.

5.2.4. The Authority proposed to consider the growth rates of traffic and the consequent traffic volumes submitted by EICI as given in Table 4 for the purpose of estimating the charges. The Authority proposed that the traffic trends in 2017-18 and 2018-19 should be observed and tariff re-evaluated for the balance 2 years (2019-20 and 2020-21) in the control period.

5.2.5. Based on the above, the Authority had proposed in Consultation Paper 10/ 2017-18 as follows:

5.2.5.1. To consider traffic projections as given in Table 4 for the purpose of estimating the charges.

5.2.5.2. To analyze the traffic in 2017-18 and 2018-19 and re-evaluate the tariff for the balance 2 years in the control period in 2019-20.

5.3. EICI Comments on Authority's proposals on Traffic volumes

5.3.1. EICI has stated as follows:

"3.1.5 … Detailed submissions have been made with respect to the reasons for fall in volumes of import shipments such as suspension of courier licenses and the same may be read as part of our comments"

"3.2.2 As rightly noted there has been a significant drop in the import volumes of about 57% in 205-16 and 46% in 2016-17"

5.4. Stakeholder comments on Traffic volumes

5.4.1. CAI, in its letter dated …… submitted as follows:

"The Authority has been misinformed that the sharp decrease in import volumes is due to cancellation of licenses of certain operators. Most of the licenses were not cancelled but suspended and have since been re-instated. Moreover the Commissioner of Customs has also issued new licenses. The Authority can be shown several mails wherein EICI has themselves informed the airlines NOT to accept courier volumes citing lack of space and that they have been instructed by Customs not to allow import of courier shipments although there has been no such communication from Customs to EICI. The Authority may also be informed that there is adequate space at the terminal, EICI has however been misusing the Customs Examination Area by converting it to store detailed cargo turning terminal into a warehouse rather than a express facility centre."

5.5. Authority's analysis of EICI and other Stakeholder comments

5.5.1. The Authority has carefully evaluated the comments submitted by EICI on traffic. The Authority has noted EICI comments that there is significant drop in volumes and this is the reason also for increase in rate per KG for the service provided. The Authority notes that the traffic volumes are not stabilized considering the change in business scenarios and hence the Authority has proposed to review the traffic and tariff after one year.

5.5.2. The Authority notes that EICI has not submitted any actual traffic data for 2016-17. The Authority had, in the Consultation Paper commented that there was a variation between the traffic break-up submitted by EICI in MYTP and ACS for 2015-16 and that the Authority proposed to consider the submissions made by the MYTP forms.

5.5.3. The Authority has carefully reviewed the comments received from CAI. The Authority had, in its analysis also stated that there is no clarity on the traffic volumes that could be actually witnessed and hence had proposed tariff only for a period of 1 year by which time the traffic trends would be known. As for the Operational issues faced by CAI with EICI, the Authority notes that the same should be taken up with the Airport Operator/Customs for resolution.

Decision No. 3. Regarding Traffic volumes

3.a. Based on the material before it and its analysis, the Authority decides:

- **i. To consider Cargo estimates as given in Table 4 for the purpose of estimating the charges.**
- **ii. To analyze the traffic in 2017-18 and 2018-19 and re-evaluate the tariff for the balance years after 1 year.**

6. Estimates of Cost and Revenue Growth

6.1. EICI's submissions on Cost and Revenue growth estimates

6.1.1. EICI had submitted the MYTP for the second control period in 2015-16, considering the estimate for 2015-16, based on which projections were made for the period 2016-17 to 2020-21.

6.1.2. Basis of estimating the costs and revenues, as submitted by EICI was as given below:

Table 5: Basis of Projecting Expenditure as per EICI

Head of Expenditure	Basis
Administration Expenses	Projected at 26% increase for offsite terminal in 2016-17 and 10%-12% increase annually there after
Airport Service provider charges/ Input cost	Projected at 20% increase in 2016-17, 16% increase in 2017-18 and 10% annual increase there onwards
Payroll Related Expenditure	Projected at 17.5% increase in 2016-17, 14% increase in 2017-18 and 12.5% - 13% increase annually there onwards

Table 6: Basis of Projecting Income as per EICI

Head of Income	Basis
Customs Cost Recovery	Projected same as that of the cost considered by EICI as it is a cost recovery
Customs Cost Recovery Recoup	Re 1/- per KG collected as per AERA order in August 2013. Expected to recoup completely in FY 2017-18
Detention Charges	These are related to Imports, hence projected to grow at 5% (same as growth rate for Import cargo)
X-Ray Charges	These are related to Exports, hence projected to grow at 10% (same as growth rate for Export cargo)

6.2. Authority's analysis of Cost and Revenue Growth estimates detailed in Consultation Paper

6.2.1. The Authority noted that the increase in staff cost was about 3% from 2015-16 to 2016-17 and the Operating Expenditure had increased by about 4% from 2015-16 in 2016-17. The Authority noted that one of the major elements of the Operating cost viz. Airport Operator fee and charges had not been finalized between EICI and MIAL as yet. Hence, keeping 2016-17 unaudited financials as the base, the Authority proposed to consider an annual increase of 7% on Staff cost and Operating cost for making projections from 2017-18 to 2020-21.

6.2.2. On Income, the Authority noted that Detention charge growth was projected by EICI at 5% - same as growth rate of cargo. The Authority noted that EICI had also proposed increase in rates for detention. Hence, in addition to the increase in total revenue based on volume, the Authority also proposed to factor an increase due to increase in rate and hence consider the growth at 7.5% for 2017-18 to 2020-21.

6.2.3. Considering the above, the cost and revenue details proposed to be considered by the Authority for projections, considering 2016-17 as the base, was as given below:

Table 7: Basis of Projections considered by the Authority

Details of Income / Expenditure	Methodology for projections (with 2016-17 as base)
Staff cost	7% escalation every year from 2017-18
Operating cost	7% escalation every year from 2017-18
Depreciation	Recomputed considering the Fixed Asset Register and Expenditure estimate provided by EICI. (Except for cost related to Customs Software)
Detention Income cost	7.5% escalation every year from 2017-18
X-Ray charges	10% escalation every year from 2017-18

6.3. EICI Comments on Authority's proposals on Revenue and Cost growth estimates

6.3.1. EICI has commented as follows:

"3.3.3. EICI licence fee agreement with MIAL has already been finalized with 10% increase in License fees and not a 7% increase as assumed. As given in our earlier submission the operating and staff cost which authority has proposed to consider the 7% is very much on the lower side considering the normal salary increment for the existing staff, fresh recruitments, increase in minimum wages and general increase in costs due to inflation etc."

"3.3.5 The projected increase proposed in MYTP was considering the Offsite terminal in 2016-17. However, due to some unavoidable circumstances the arrangement of Offsite Terminal could not take place and based the expenses were projected. Without considering the cost for offsite terminal the projections in MYTP were made on the basis of 12% escalation in staff cost, 10% increase in administrative expenses and 10% in Airport Service Provider charges/ Input cost. Therefore, we insist that the Authority to consider these escalations from 2017-18 onwards. We also wish to highlight that the x-ray screening charges are presently being subsidized. The expenditure on x-ray screening ins incurred on payments to MIAL for x-ray machine usage which is Rs. 2.60 per kg. In addition M/s CSC is paid Rs. 0.65 per kg which is shared by MIAL and CSC. Hence a total of Rs. 3.25 per kg is paid to MIAL and CSC. EICI is charging Rs. 1.38 per kg when only the machine is used and the screening is done by the airline. In case where CSC does the screening we are charging Rs. 1.70. Hence, EICI is subsidizing the x-ray screening charges by Rs. 1.55 per kg which is a loss and which is absorbed in the operational costs. Hence an increase in export volumes will also imply an increased loss on this account for EICI.

6.4. Authority's analysis of EICI's comments

6.4.1. The Authority has carefully evaluated the comments provided by EICI. The Authority has, as stated in the Consultation Paper, noted that there were significant swings in Personnel costs and

Operating cost across the years as seen from the ACS. Authority's analysis and decision on the same is detailed in Para 3.6 above.

6.4.2. The Authority has noted EICI's comments that EICI is subsidizing the X-Ray charges. The Authority notes that all costs incurred by EICI, including X-Ray charges have been included in computing the Operating cost for the purpose of computing the ARR and in evaluating the break-up of the various revenues.

6.4.3. The Authority has already detailed the analysis and the variations in the trend of expenses year on year. The Authority has taken note of the renewal of the license with MIAL and the increase in lease rentals. The Operating cost increase between 2015-16 and 2016-17 is less than 5%. The Authority has considered 7% to be an estimate of the increase in cost, which will be trued up based on actuals.

6.4.4. The Authority has also noted that the rates will be applicable for a year and will be trued up and re-evaluated based on the experience of actual volumes and the study on Operating Expenditure and Capital Expenditure to be carried out.

Decision No. 4. Regarding Escalation rates for Cost and Revenue

4.a. Based on the material before it and its analysis, the Authority decides:

i. To consider escalation rates as detailed in Table 7 for the purpose of estimating certain cost and revenue values.

7. Capital Expenditure and Depreciation

7.1. EICI submissions on Capital Expenditure and Depreciation

7.1.1. The Authority noted that EICI has, in the MYTP submitted in 2015-16 proposed Rs. 7.7 crores of Capital Expenditure in 2017-18 and Rs. 1.00 Crore in 2018-19. During discussions with EICI in May 2017, the Authority was informed that the substantial capital expenditure planned for 2016-17 for the additional space taken was not incurred. EICI was asked to submit comparison of the actual capex incurred vis-a-vis submitted in the proposal and the revised proposed Capital Expenditure estimate for the balance 4 years in the control period. EICI was also asked to submit the Fixed Asset Register with the depreciation workings.

7.1.2. EICI had submitted as under:

Table 8: Capital Expenditure projection and actuals submitted by EICI in May 2017

Particulars	2016-17		2017-18	
	Projected	Actual	Projected	Actual
Mumbai	**77,000,000**	**5,085,175**	**10,000,000**	**-**
Plant & Machinery	20,000,000	4,118,795	-	-
Computers & Software	1,000,000	966,380	-	-
Furniture & Fittings	56,000,000	-	10,000,000	-
We had projected for the offsite location in Mumbai due to space constraint but the same was not executed. We are in the process of identifying space and may be in the next couple of years it will be completed.				

7.2. Authority's analysis of Capital Expenditure and Depreciation detailed in Consultation Paper

7.2.1. From the above, the Authority noted that as compared to Rs. 7.7 crores, about Rs. 0.51 crores had been incurred in 2016-17 and another Rs. 1 crore was proposed to be incurred in 2017-18. From the above submissions of EICI, the Authority was not certain of the time and quantum of the balance investments which EICI has stated will be completed in *"next couple of years"*. Hence, for the purpose of computing Depreciation, the Authority proposed to consider Rs. 1 crore estimate in 2017-18 only, in addition to the actual amount spent in 2016-17 (subject to Para 3.6.3 above to Para 3.6.6 above).

7.2.2. Based on the above details of addition and the Fixed Asset Register provided by EICI, the estimated depreciation for 2017-18 to 2020-21 was as below:

Table 9: Depreciation computed by the Authority (Rs. Lacs)

Particulars	16-17	17-18	18-19	19-20	20-21
Depreciation on Existing assets as of March 2017	124.31	52.86	37.38	29.28	21.85
Depreciation on Rs. 1 crore to be capitalized in 2017-18 (10 years, 5% residual value)	-	4.75	9.50	9.50	9.50
Total	**124.31**	**57.60**	**46.88**	**38.78**	**31.35**

7.3. EICI comments on Authority's Proposals on Capital Expenditure and Depreciation

7.3.1. EICI has stated as follows, on Capital Expenditure and Depreciation

"3.4.1 to 3.4.4. The Capital Expenditure of Rs. 7.7 Crores on account off Offsite Terminal did not take place. However, as informed to the Authority earlier the EDI project has gone live in January 2017 and the total cost of the project of Rs. 20 Cr. Appearing in the Capital Work in Progress (CWIP) is capitalized in 2016-17. Since this project is for all the terminals, the share of Mumbai based on volumes works out to 30% which is Rs. 6 Cr. Therefore, this capital expenditure requires to be considered in clause 3.4.4 of the Consultation Paper for the purpose of calculating depreciation for 2016-17 and onwards. The requested depreciation may hence please be provided.

7.4. Authority's analysis of EICI's comments

7.4.1. The Authority has carefully evaluated the comments submitted by EICI. Authority's analysis on the software cost capitalised in detailed in Para 3.6 above. The Authority will consider the additional depreciation on software and related Hardware after completion of the study.

Decision No. 5. Regarding Capital Expenditure and Depreciation

5.a. Based on the material before it and its analysis, the Authority decides:

i. To consider the actual Capital expenditure incurred in 2016-17 (excluding Software) and the projected expenditure of Rs. 1 crore, as detailed in Table 8 as additions to RAB

ii. To consider Depreciation amount computed and tabulated in Table 9 for the purpose of computing the ARR.

8. Aggregate Revenue Requirement and Tariff Card

8.1. ARR as per EICI and as recomputed by the Authority in Consultation Paper

8.1.1. EICI had submitted the P&L Projections for 5 years based on the above estimated growth in costs and revenues in its MYTP submitted in 2015-16. EICI had not computed the Aggregate Revenue Requirement.

8.1.2. The Authority, in the Consultation Paper had computed ARR for the second control period, considering the above cost and revenue estimates and considering providing a return of 10% of total revenue post tax, keeping in view:

8.1.2.1. EICI is a non-profit organization and,

8.1.2.2. EICI may have to build up reserves for contingencies and for future capital expenditure as and when required.

8.1.3. Accordingly the ARR computed by the Authority in Consultation Paper was as given below:

Table 10: ARR computed by the Authority in Consultation Paper

Recomputed ARR	Basis	2016-17	2017-18	2018-19	2019-20	2020-21
Depreciation	See separate workings	12,431,561	5,760,736	4,688,746	3,878,235	3,135,404
Personnel cost	16-17 actuals. Considered 7% increase year on year	27,860,212	29,810,427	31,897,157	34,129,958	36,519,055
Operations Cost	16-17 actuals (***excl. Customs cost recovery***), Considered 7% increase year on year	388,239,924	415,416,719	444,495,890	475,610,602	508,903,344
Total direct cost		**428,531,697**	**450,987,882**	**481,081,792**	**513,618,795**	**548,557,803**
Total Revenue to be	**Considering Tax at 30% and profit margin of 10% post tax**	**499,953,647**	**526,152,529**	**561,262,091**	**599,221,927**	**639,984,103**
Revenue from Non-Regulated services	16-17 actuals. Considered increase % (Approx. 25% for 2 years and 40% for 2 years as per MYTP)	24,432,018	30,540,023	38,175,028	53,445,039	74,823,055
Revenue from Regulated services to be		475,521,629	495,612,507	523,087,063	545,776,888	565,161,048

8.2. Tariff Card – Proposed by EICI and computed by the Authority in Consultation Paper

8.2.1. EICI had, as part of its MYTP submitted in 2015-16 submitted a proposed rate card for each year from 2017-18 to 2020-21.

8.2.2. EICI had proposed for increase in rates of facilitation fee for Imports and Exports and Detention charges.

8.2.3. A tabulation of the existing / current rates and the rates proposed by EICI is as below.

Table 11: Rate card (Existing and Proposed by EICI)

Nature of Charge	Existing Rate	Revised rate requested *	Remarks
Imports			
Facilitation Fee	Rs. 6.00 per kg	Rs. 30.00 per kg	
Customs Charges	Rs. 5.75 per kg	Rs. 5.75 per kg	
Unrecouped Customs Cost recovery	Rs. 1.00 per kg	Rs. 1.00 per kg	No collection proposed from 2018-19
Demurrage			
0-3 days	Free		
04-05 days		Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	
06-10 days	Rs. 2/- per KG per day or part thereof or Rs. 30/- whichever is higher	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	Free storage 3 days. For next 48 hours, demurrage will be charged at "per kg" basis - non-cumulative. If clearance is effected after 05 working days, demurrage will accrue for the entire period from the date/ time of arrival of flight
11-20 days	Rs. 3/- per KG per day or part thereof or Rs. 30/- whichever is higher	Rs. 4/- per KG per day or part thereof or Rs. 40/- whichever is higher	
21-30 days	Rs. 4.50 per KG	Rs. 5.50 per KG	
From 31 days	Rs. 6.00 per KG	Rs. 7 per KG	
International Exports			
Facilitation Fee	Rs. 5.50 per KG	Rs. 9.50 per KG	
Customs Charges	Rs. 1.50 per KG	Rs. 1.50 per KG	
Unrecouped Customs Cost recovery	Rs. 1.00 per kg	Rs. 1.00 per kg	
X-Ray Charges (International Cargo Exports)			
X-Ray charges - if screening done by Airlines (minimum charge applicable per AWB)	Rs. 1.38 (Minimum charge per AWB/CTM/IGM/FLIGHT - Rs. 167)	Rs. 1.38	
X-Ray charges - if screening not done by Airlines (minimum charge applicable per AWB)	Rs. 1.70 (Minimum charge per AWB/CTM/IGM/FLIGHT - Rs. 225)	Rs. 1.70	As per Ministry of Civil Aviation letter No. AV-24032/12/2010-AD dated 17/06/2013 the X-Ray screening charges should be the same both for general cargo and courier cargo
**** Rates given above for 2016-17 are proposed to be increased for the next years for Facilitation Fee, Detention etc. See detailed Rate card submitted***			

8.2.4. The Authority had, in the Consultation Paper recomputed the facilitation charges as below and proposed the same to be collected for 2 years as below.

Table 12: Revenue break-up for ARR computed by the Authority in Consultation Paper

Particulars		**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Revenue from Regulated services to be		475,521,629	495,612,507	523,087,063	545,776,888	565,161,048	
Revenue collected in first year		(369,179,540)					
Balance collections total to be		**106,342,089**	**495,612,507**	**523,087,063**	**545,776,888**	**565,161,048**	**2,235,979,594**
Of the above:							
Customs cost recovery		Separately to be collected, equaling to cost. Cost not considered above					
Customs cost recoup		Separately to be collected, to compensate for earlier cost. Not considered here. As per EICI will be done by 2017-18					
Detention charges	Considered 7.5% increase year on year of 16-17 actuals (based on import growth rate)		81,889,711	88,031,439	94,633,797	101,731,332	
X-Ray charges	Considered 10% increase year on year of 16-17 actuals (based on export growth rate)		32,126,098	35,338,708	38,872,579	42,759,837	
Balance to be collected as Facilitation fee			381,596,698	399,716,916	412,270,512	420,669,880	
Import Cargo Kgs			9,657,900	10,140,795	10,647,835	11,180,226	
Import revenue	**Rate per KG**	**18**	173,842,200	182,534,310	191,661,026	201,244,077	
Export Cargo Kgs			22,479,061	24,726,967	27,199,663	29,919,630	
Export revenue	**Rate per KG**	**9.5**	213,551,075	234,906,183	258,396,801	284,236,481	
Collections Total			**501,409,084**	**540,810,640**	**583,564,203**	**629,971,727**	**2,255,755,654**
Discount factor at 10%			0.91	0.83	0.75	0.68	
Discounted value of required revenue at 10%			547,231,451	432,303,358	410,050,254	386,012,600	1,775,597,662
Discounted value of collections at 10%			455,826,440	446,950,942	438,440,423	430,279,166	1,771,496,971

8.2.5. The Authority noted that the actual volume of collections is dependent on the cargo volumes and the Operations are also subject to renewal of license to operate in CSI Airport from MIAL.

8.2.6. The Authority had, in the Consultation Paper, proposed to approve the following rates for 2017-18 and 2018-19 from date of implementation. EICI was required to submit ATP for the period till 2018-19 by April 2019 which will be reviewed by the Authority for determining rates for the subsequent period.

Table 13: Rates proposed by the Authority for 2017-18 and 2018-19 in Consultation Paper

Nature of Charge	Rate for 2017-18 and 2018-19	Remarks
Imports		
Facilitation Fee	**Rs. 18.00 per kg**	
Demurrage		
0-3 days		
04-05 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	
06-10 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	Free storage 3 days. For next 48 hours, demurrage will be charged at "per kg" basis - non-cumulative. If clearance is effected after 05 working days, demurrage will accrue for the entire period from the date/ time of arrival of flight
11-20 days	Rs. 4/- per KG per day or part thereof or Rs. 40/- whichever is higher	
21-30 days	Rs. 5.50 per KG	
From 31 days	Rs. 7 per KG	
International Exports		
Facilitation Fee	**Rs. 9.50 per KG.**	
X-Ray charges - if screening done by Airlines (minimum charge applicable per AWB)	Rs. 1.38	As per Ministry of Civil Aviation letter No. AV-24032/12/2010-AD dated 17/06/2013 the X-Ray screening charges should be the same both for general cargo and courier cargo
X-Ray charges - if screening not done by Airlines (minimum charge applicable per AWB)	Rs. 1.70	

8.3. Rates for Customs Cost Recovery and Customs Cost Recovery Recoup charges

8.3.1. The Authority had approved collection of revised customs cost charges and Customs cost recoup charges in its Order 14/2015-16 dated 3rd November 2015 and ordered that EICI submit the details of costs incurred by EICI and the revenue collected on account of Customs Cost duly audited.

8.3.2. The Authority noted that EICI has submitted the details for 2015-16. Details of the overall customs cost recovery charges and the customs cost recoup charges collected till March 2017 and the costs relating to the same were not submitted to the Authority.

8.3.3. The Authority notes from EICI submissions that it proposed to collect the customs cost recovery charges to match the expenditure to be paid to Customs and Customs Cost recoup charges are proposed to be collected till 2017-18 only.

8.3.4. The Authority proposed to allow EICI to collect the Customs Cost Recovery charges and the Customs Cost Recoup charges till 2017-18 at prevailing rates and require EICI to submit a consolidated statement of Customs Cost recovery and Customs cost recoup charges paid together with the Revenues collected and submit the same for Authority's review in April 2018 for continuance of collections from 2018-19.

8.4. EICI comments on ARR and Tariff card

8.4.1. EICI has commented as follows:

"Customs Cost recovery income included in revenue however not taken in the expenses leading to an incorrect calculation.

1. In Para 4.1.5 reproduced below, the total revenue projections based on the revised lowered rates suggested by AERA are as under ....

While it has been noted that the Customs Cost recovery charges are to be collected separately and that this cost has not been considered, the revenue collection figure of Rs. 36,91,79,540 is inclusive of Customs cost recovery charges in the computation of revenues.

It will be seen from the above that the revenue for the year 2016-17 was projected to be Rs. 47,55,21,629, however, the actual income reflected in the above table is shown as Rs. 36.91,79,540. It is most humbly submitted that this sum of Rs. 36,91,79,540 shown as income in fact actually also includes customs cost recovery charges and un-recouped customs cost recovery charges amounting to Rs. 10,72,63,434/-. Due to this error of including customs cost recovery charges and un-recouped customs cost recovery charges as part of the income, which are not included in the expenditure, an inflated picture of revenue has been arrived at which needs to be corrected. Hence, the actual income should have been Rs. 26,19,16.106/- only."

8.4.2. Further, EICI has stated as below:

"4.1.6 The Authority has noted that certain period of 2017-18 has elapsed and the tariff proposed may take after consultation process. However, the Authority failed to note the actual loss incurred for FY 2016-17 which is the first year of Second Control Period"

"4.1.7 The proposed tariff is not acceptable as far from assisting in recouping the losses in the first year of the MYTP, the proposed rates would ensure closure of the Mumbai Express Terminal as the rates proposed based on incorrect assumptions and calculations would be commercially unviable and hence the requested rates should be provided"

8.5. Authority's analysis of EICI's comments, recomputed ARR and Tariff card

8.5.1. The Authority has carefully analysed the comments submitted by EICI. The Authority noted that the Customs Recovery charges has been inadvertently included in the Revenues for 2016-17 for the purpose of computing the shortfall, which the Authority has corrected herewith.

8.5.2. The Authority notes that EICI has stated that the Authority has failed to note the loss for 2016-17. The Authority notes that computation of ARR and total revenue requirement consider 2016-17 year also and has accordingly computed the shortfall in collection in 2016-17 for recoupment.

8.5.3. The Authority has re-examined the return on revenue and considering the fact that EICI is a Not for Profit Organisation, the impact on the tariffs, and taking into account the comment received from CAI has detailed in Para 3.4.3 above. The Authority has decided to consider the same at 5% of revenue post tax currently, instead of 10% as indicated in the Consultation Paper.

8.5.4. The Authority was also, during discussions with EICI, informed of the current year (2017-18) losses for the period from April 2017 till date due to the collection of charges at the earlier rates. The Authority had noted in the Consultation Paper that considerable time of 2017-18 has now elapsed and charges that would have been collected at the earlier rates for the period April 2017 to November 2017 would need to be considered at the time of re-determining the rates. Hence the Authority, in estimating the charges for 2017-18, has considered collections at existing rates till November 2017 and for the balance period at the new rates.

8.5.5. The Authority decides to recoup the shortfall in collections from April 2016 to November 2017 over 3 years commencing from April 2018.

8.5.6. Accordingly the revised ARR, re-computed charges and the revised tariff card are as below:

Table 14: ARR computed by the Authority

Working for Aggregate Revenue Requirement	Basis	2016-17	2017-18	2018-19	2019-20	2020-21
Depreciation	See separate workings	1,24,31,561	57,60,736	46,88,746	38,78,235	31,35,404
Personnel cost	16-17 cost considered as base, Considered 7% increase year on year	3,24,11,489	3,46,80,293	3,71,07,914	3,97,05,468	4,24,84,850
Operations Cost	16-17 cost considered as base (excl. Customs Cost recovery), considered 7% increase year on year	39,02,49,396	41,75,66,854	44,67,96,533	47,80,72,291	51,15,37,351
Total direct cost		**43,50,92,446**	**45,80,07,883**	**48,85,93,193**	**52,16,55,994**	**55,71,57,606**
Total Revenue to be	Considering Tax at 30% and profit margin of 5% post tax	**46,85,61,096**	**49,32,39,259**	**52,61,77,285**	**56,17,83,378**	**60,00,15,883**
Revenue from Non-Regulated services	16-17 actuals. Considered increase % (Approx. 25% for 2 years and 40% for 2 years as per MYTP)	3,55,71,843	4,44,64,804	5,55,81,005	7,78,13,407	10,89,38,769
Aggregate revenue requirement		**43,29,89,253**	**44,87,74,455**	**47,05,96,280**	**48,39,69,971**	**49,10,77,114**

Table 15: Revenue break-up for ARR re-computed by the Authority

Particulars		2016-17	2017-18	2018-19	2019-20	2020-21	Total
Revenue from Regulated services to be (From ARR above)		43,29,89,253	44,87,74,455	47,05,96,280	48,39,69,971	49,10,77,114	
Revenue for future periods to be (Dec 17 - March 21) (A)			14,95,91,485	47,05,96,280	48,39,69,971	49,10,77,114	
Shortfall Estimation							
Collections to be April 17 - November 17	Proportionate for 8 months		29,91,82,970				
Collections estimated - April 17 to November 17							
Import Cargo Kgs till November 2017		6	64,38,600				
Import Cargo Revenue at existing rate			3,86,31,600				
Export Cargo Kgs till November 2017		5.5	1,49,86,040				
Export Cargo Revenue at existing rate			8,24,23,222				
Total actual for 2016-17 and estimated collections till November 2017		(26,19,16,112)	(12,10,54,822)				
Shortfall in collections		17,10,73,141	17,81,28,148				
Shortfall in collection spread from 2018-19 to 2020-21 **(B)**				11,64,00,430	11,64,00,430	11,64,00,430	
Total collections to be – C=A+B			**14,95,91,485**	**58,69,96,710**	**60,03,70,401**	**60,74,77,543**	**1,94,44,36,139**
Break-up of estimated revenues							
Customs cost recovery		Separately to be collected, equalling to cost. Cost not considered above					
Customs cost recoup		Separately to be collected, to compensate for earlier cost. Not considered here. As per EICI will be done by 2017-18					
Detention charges **(i)**	Considered 7.5% increase year on year of 16-17 actuals (based on import growth rate)		8,18,89,717	8,80,31,446	9,46,33,804	10,17,31,340	
X-Ray charges **(ii)**	Considered 10% increase year on year of 16-17 actuals (based on export growth rate)		3,21,26,098	3,53,38,708	3,88,72,579	4,27,59,837	
Balance to be collected as Facilitation fee (C minus (i) minus (ii))			3,55,75,669	46,36,26,556	46,68,64,017	46,29,86,367	
Break-up of Proposed collections							
Import Cargo Kgs (future, from December 2017)			**32,19,300**	**1,01,40,795**	**1,06,47,835**	**1,11,80,226**	
Import Revenue at revised rate **(iii)**		**16**	5,15,08,800	16,22,52,720	17,03,65,356	17,88,83,624	
Export Cargo Kgs (future, from December 2017)			**74,93,020**	**2,47,26,967**	**2,71,99,663**	**2,99,19,630**	
Export Revenue at revised rate **(iv)**		**9.5**	7,11,83,692	23,49,06,183	25,83,96,801	28,42,36,481	
Collections Total	**(i)+(ii)+(iii)+(iv)**		**23,67,08,307**	**52,05,29,057**	**56,22,68,540**	**60,76,11,282**	**1,92,71,17,186**
			1.00	0.91	0.83	0.75	
Discounted value of required revenue at 10%			14,95,91,485	53,36,33,373	49,61,73,885	45,64,06,870	1,63,58,05,612
Discounted value of collections at 10%			23,67,08,307	47,32,08,234	46,46,84,744	5,65,07,349	1,63,11,08,634

Table 16: Revised rates determined by the Authority from 1st December, 2017 for a period of 1 year

Nature of Charge	Revised Rates applicable	Remarks
Imports		
Facilitation Fee	**Rs. 16.00 Per KG**	
Demurrage		
0-3 days		
04-05 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is	

Nature of Charge	Revised Rates applicable	Remarks
	higher	
06-10 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	Free storage 3 days. For next 47 hours, demurrage will be charged at "per kg" basis - non-cumulative. If clearance is effected after 05 working days, demurrage will accrue for the entire period from the date/ time of arrival of flight
11-20 days	Rs. 4/- per KG per day or part thereof or Rs. 40/- whichever is higher	
21-30 days	Rs. 5.50 per KG	
From 31 days	Rs. 7 per KG	
International Exports		
Facilitation Fee	**Rs. 9.50 per KG.**	
X-Ray charges - if screening done by Airlines (minimum charge applicable per AWB)	Rs. 1.38	As per Ministry of Civil Aviation letter No. AV-24032/12/2010-AD dated 17/06/2013 the X-Ray screening charges should be the same both for general cargo and courier cargo
X-Ray charges - if screening not done by Airlines (minimum charge applicable per AWB)	Rs. 1.70	

Decision No. 6. Regarding consideration of Non-Regulated Revenue for ARR

6.a. Based on the material before it and its analysis, the Authority decides:

i. **To compute ARR as detailed in Table 14 for the purpose of determining revenues, considering a margin on revenue of 5%.**

ii. **To re-compute revenue break-up as given in Table 15 and to consider the tariff as given in Table 16 from 1st December,2017 till 1 year period, as elaborated in Decision No. 1 above.**

iii. **To require EICI to submit ACS for the completed years in the second control period at the time of re-evaluation of tariff.**

iv. **The Customs Cost Recovery charges and un-recouped Custom Cost Recovery Charges to continue at the existing rates upto March 2018. EICI to submit consolidated cumulative details of Customs cost recovery charges and un-recouped the Custom Cost Recovery Charges made thereon till March 2018, for evaluation of continuance of the charges or otherwise.**

9. Summary of Decisions

10.Order

10.1.1. In exercise of powers conferred by Section 13 (1) (a) of the AERA Act 2008 and based on the above decisions, the Authority hereby determines, ad-hoc Aeronautical tariffs to be levied at Express Industry Council of India for a period of 1 year, as placed at **Annexure I**. These rates will be effective from 1st December 2017.

10.1.2. The tariffs determined herein are ceiling rates, exclusive of taxes, if any.

By the Order and in the name of the Authority

(Puja Jindal)

Secretary

सत्यमेव जयते

To

Express Industry Council of India

501,Crystal Centre, Raheja Vihar.

Off. Chandivali Farm Road, Powai,

Mumbai-400072.

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AERA

11.List of Tables

Express Industry Council of India (EICI) – Mumbai

Ad-hoc rates effective from 1st December, 2017 for 1 year.

Nature of Charge	Revised Rates applicable	Remarks
Imports		
Facilitation Fee	**Rs. 16.00 Per KG**	
Demurrage		
0-3 days	Free	
04-05 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	
06-10 days	Rs. 3/- per KG per day or part thereof or Rs. 40/- whichever is higher	Free storage period for express shipment shall be 72 hours. (03 working days) including the date of the arrival of flight. For next 48hours (02 working days), demurrage will be charged at "per kg; per day" non-cumulative basis provided the consignment is cleared within 120 hours (05 working days). If clearance is effected after 120 hours (05 working days), demurrage will accrue for the entire period from the date/ time of arrival of flight.
11-20 days	Rs. 4/- per KG per day or part thereof or Rs. 40/- whichever is higher	
21-30 days	Rs. 5.50 per KG	
From 31 days	Rs. 7 per KG	
International Exports		
Facilitation Fee	**Rs. 9.50 per KG.**	
X-Ray charges - if screening done by Airlines (minimum charge applicable per AWB)	Rs. 1.38	
X-Ray charges - if screening not done by Airlines (minimum charge applicable per AWB)	Rs. 1.70	As per Ministry of Civil Aviation letter No. AV-24032/12/2010-AD dated 17/06/2013 the X-Ray screening charges should be the same both for general cargo and courier cargo

Custom Cost Recovery Charges effective till 31st March 2018

Nature of Charge	Rate
Imports	
Customs Charges	Rs. 5.75 per kg
Un-recouped Customs Cost recovery	Rs. 1.00 per kg
Exports	
Customs Charges	Rs. 1.50 per KG
Un-recouped Customs Cost recovery	Rs. 1.00 per kg