Federation of Indian Airlines
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MOST URGENT

28 February 2022

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar, IAS

Sub: FIA response to AERA CP.No.29/2021-22 dt:27 Jan'22 on determination of Aeronautical Tariff for Goa International Airport, Goa for the Third Control Period (01.04.2021 – 31.03.2026)

Dear Sir,

We write in response to the Consultation Paper No. 29/2021-22 dated: 27th January 2022 issued by the Airports Economic Regulatory Authority of India **("AERA")** in the matter of determination of Aeronautical Tariff for Goa International Airport, Goa **('GIA' or 'Goa Airport')** for the Third Control Period (01.04.2021 – 31.03.2026) ('**Consultation Paper' or 'CP').**

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper, and further acknowledging the impact of COVID-19 on the aviation sector.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been hit the hardest by COVID-19. Since February/March 2020, due to restrictions on the scheduled international and domestic air travel issued by the Ministry of Civil Aviation and Directorate General of Civil Aviation and other restrictions on inter/intra state travel (collectively 'Government Restrictions'), airlines' cash flows have been severely impacted.

While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 and subsequent emerging variants of COVID-19, has again impacted the operations to a certain extent and resultantly prolonged the process of financial recovery.

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As per industry estimates issued by IATA and CAPA, it will take almost two (2) - three (3) years for airline operations to reach pre COVID-19 level, in terms of number of flights and passengers. In the current situation, airlines in India are staring at a loss of approximately USD 8.0 billion for the FY 2020-21 and 2021-22. With limited financial support from the Government, Airlines are constrained to implement severe cost control measures to sustain its operations.

You will further appreciate that, while the low passenger demand for air travel/ load coupled with certain Government Restrictions on fare, prevents airlines from generating adequate passenger revenue, airlines continue to incur high operational cost, including on account of high airport charges and taxes.

The Consultation Paper, inter alia, proposes an increase/hike in the aeronautical tariff at Goa Airport as mentioned in **Annex-A**. In this regard, we humbly request AERA to not implement any increase in the aeronautical tariff in the Third Control Period and defer any increase in the same to subsequent control period, given the adverse financial impact of COVID-19.

Without prejudice to the above, and as desired by AERA, please find attached our recommendations/ comments on the Consultation Paper, under **Annex – B**.

We hope that your good self will positively consider such recommendations/ comments as it will help in achieving the affordability and sustainability of the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

We look forward to your continued support in these challenging times and therefore we would request your good office to consider our submission and if found tenable, to give us an opportunity to present a detailed case.

Yours Truly,

For and behalf of the Federation of Indian Airlines,

UJJWAL DEY
Associate Director

Copy to:
Director (P&S Tariff), Airports Economic Regulatory Authority of India (AERA)

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Annex – A

INCREASE IN AERONAUTICAL TARIFF

Particulars		Proposed by AERA				
	FY22 Existing rates	2022-23 (Tariff w.e.f 01.04.22 to 30.06.22)	2022-23 (Tariff w.e.f 01.07.22 to 31.03.23)	2023-24	2024-25	2025-26
Parking Charges – upto 2 hours after free hours. Domestic & International						
upto 100 MT	197.5	**197.5**	**227.5**	**240**	**252.5**	**265**
Variance % year on year	0.00%	0.00%	**15.19%**	**5.49%**	**5.21%**	**4.95%**
Parking Charges – Beyond 4 hours. Domestic & International						
upto 100 MT	390	**390**	**447.5**	**470**	**492.5**	**517.5**
Variance % year on year	**0.00%**	**0.00%**	**14.74%**	**5.03%**	**4.79%**	**5.08%**
UDF Charges						
UDF – Domestic	301	301	350	375	400	425
Variance % year on year	**0.00%**	**0.00%**	**16.28%**	**7.14%**	**6.67%**	**6.25%**
UDF – International	604	604	650	675	700	725
Variance % year on year	**0.00%**	**0.00%**	**7.62%**	**3.85%**	**3.70%**	**3.57%**

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ANNEX-B

FIA comments on the AERA CP.No.29/2021-22 dt:27 Jan'22 on determination of Aeronautical Tariff for Goa International Airport, Goa for the Third Control Period (01.04.2021 – 31.03.2026) and the Tariff Card.

1	**Revenue from Air Navigation Services and Cargo services:** (Refer 3.3.1 and 3.3.2 of the CP)	It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (**AERA Act**), under sub-section (a), *"aeronautical services means any services provided-* *(i)For navigation, surveillance and supportive communication thereto for air traffic management…..* *(v) for the cargo facility at an airport.."* It is submitted that considering the above provisions of the AERA Act, we request that instead of considering only 30% of the revenue from Air Navigation Services and Cargo services, 100% revenue accruing from the same should be considered to compute aeronautical revenues. Accordingly, AERA should take into account the above and revise the Aggregate Revenue Requirement (ARR)/tariff card.
2	**True Up of Operational & Maintenance (O&M) Expenses for the Second Control Period:** (Refer 4.6, 4.6.4 and Table 12 &15 of the CP)	We observe that AERA has noted that the process adopted by Goa Airport for allocating the expenses is not transparent (Para 4.6.4). We further observe that Goa Airport has paid Interest/penalties to Government of India at CHQ & RHQ level (Para 4.6.4(b) and in this regard AERA has rightly stated that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on part of the Airport Operator. We support AERA's decision to direct AAI in adopting a scientific/ rational approach for justifiable allocation of expenses attributable to Goa Airport, in future. Further, AERA has noted that Goa Airport should exploit the potential of its non-traffic avenues fully so that 30% of the same, by cross subsidisation, can be used to cover Aeronautical expenses (Para 4.6.4 (b).

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		In addition, it is observed that several actual O&M expenses submitted by Goa airport for the Second Control Period significantly vary from their respective projections made at the beginning of the Second Control Period. Further it is noted that while the AERA expected Goa Airport to reduce O&M over a period of time, still the O&M expenses in the Second Control Period spiralled and has further increased in the Third Control Period (Para 4.2.2). In view of the above, we would request AERA to undertake suitable independent study for efficient calculation of O&M expenses. For e.g., AERA has conducted a study for "Operations & Maintenance of Expenses dated December 2021" in the case of Kolkata Airport, with an intent to review these expenses.
3	**Traffic Forecast for Third Control Period:** (Refer 5.4.1, 5.4.8 and Table 21 of the CP)	While we appreciate that AERA has considered various study/reports by international bodies like ACI, IATA and CAPA India, we request AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act. Further, as AERA has an opinion that with the gradual revival of the economy, increase in the uptake of the vaccines, measures taken by the Government of India to make the air travel safe along with easing of air travel by various countries, the aviation industry is expected to recover at a better pace in the next few years. Thus, we further request AERA to consider traffic growth keeping in view the removal of all capacity restrictions by the Ministry of Civil Aviation.
4	**Regulatory Asset base (RAB)/ Capital Expenditure for Third Control Period:** (Refer Table 25 & 27of the CP)	It is observed that Goa Airport has deferred certain capital expenditure from the Second Control Period to the Third Control Period. In this regard, we recommend that an adjustment of 1% or higher of the project cost from the ARR, as deemed fit, is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Third Control Period.

		Goa Airport has proposed capex in the respective control period and postponed it to the next control period. AERA has acknowledged the effect of the pandemic in the Second Control Period on certain capital expenditure projects. It is pertinent to note that AERA has observed in other consultation papers that a delay in the capitalisation of works would unfairly burden the airport users without passing on the benefits to them. As mentioned above it will take around two (2) -three (3) years for the flight operations to reach to its pre COVID-19 peak levels. In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by Goa Airport be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Goa Airport wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, the same should be considered by the AERA. Moreover, as discussed in the Stakeholder meeting conducted on 15^{th} February 2022, we request AERA to ensure that the extension of Terminal building & related works are being done in compliance with the normative norms/approach as per the Order No.07/2016-17. Further, we request AERA to conduct an independent study for efficient capital expenditure in the Third Control Period in accordance with the AERA Act, 2008.
5	**Terminal Building Ratio:** (Refer 6.2.2 of the CP)	AERA has proposed a Terminal Building ratio of 8%, and mentions that this is in line with the optimum Non-aeronautical ratio of 8% - 12% as per IATA and IMG norms. However, AERA has approved 10% in case for similar airports (for eg. Pune Airport) while apportioning the common assets within the Terminal Building, leading towards TBLR of 90:10.

		In view of the above, we would request AERA to conduct an independent study on the allocation of assets including Terminal building ratio (Aeronautical & Non-Aeronautical) before issuing the order for the Third Control Period.
6	**Depreciation:** (Refer 6.4 of the CP)	While we acknowledge that the depreciation rate applied by AERA is in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', we request that it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. We submit that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA. AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem.
7	**Fair Rate of Return (FRoR):** (Refer 7.2.4, 7.2.6 and Table 37 of the CP)	AERA has considered a FRoR of 12.91%, which is net of income tax return to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the airport operator, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Further, due to such fixed/assured returns, service providers like Goa Airport have no incentive to look for productivity improvement or ways of increasing efficiencies and take steps to reduce costs as they are fully covered for all costs plus their returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In view of above, in the present scenario any assured return on investment to any services providers like Goa Airport, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.

		Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the AERA is requested to conduct an independent study for determination of FRoR to be provided to Goa Airport. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators.
8	**Non-Aeronautical Revenue:** (Refer 9.2.1 & 9.2.2 of the CP)	We observe that the non-aeronautical revenues of Goa considered by AERA are low / conservative. It is requested that Goa Airport explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As mentioned in para 9.2.1, the non-aeronautical revenue for Third Control Period is lower than the Second Control Period due to cessation of certain concessionaire agreements in FY20-21. Accordingly, we request AERA to direct AAI to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue. In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the Third Control Period. Without prejudice to the above, our submission is that increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase, and real increase/escalations in contract rates. AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. a. **Royalty:** Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.

9		It is general perception service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator. As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at Goa airport are as high as up to 13-15% for some services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit. In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items.
9	**Operation & Maintenance (O&M) Expenses for Third Control Period:** (Refer 10.2.15 and Table 46 of the CP)	As per Para 4.2.2 (*decision 11b)* & Table 15 of the CP, AERA has itself observed that it expected Goa Airport to reduce O&M expenditure over a period of time. However, as can be observed from Para 9.2.2, despite the directions of AERA, no such reduction in O&M expenses have taken place and on the contrary, as per para 10.2.15 and Table 46 of the CP, a further increase is proposed O&M expenditure for Third Control Period. In view of the above, we request AERA to: (a) Put on hold any increase in operational expenditure by Goa Airport;

		(b) Advise Goa Airport to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner and address any increase in fees sought by Goa Airport. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. Accordingly, Goa Airport needs to significantly reduce all such costs.by at least 35% and further no escalation should be permitted; and (c) In view of the above, Goa Airport should be directed to pass on cost benefits to the airlines. (d) In particular, we submit that: 1. Instead of a significant reduction in cost items of operating expenses, AERA has proposed a Y-O-Y percentage increase of around 6% on Payroll and Repair & Maintenance, and 5-10% in Administration and General Expenses. Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations, appears to be without any rationale and should be avoided. 2. Upkeep and Utility expenses: Although the activity level has gone down drastically, rather than significant reduction in the cost, the Upkeep Expenses as proposed by AERA are to increase Y-O-Y each year by 4.9% other than 2025-26, for which it will be an exceptional 35%. This exceptional increase should be avoided. 3. Expenses on account of CSR as given in Para 10.2.14 and Table 45 of the CP may be excluded. This will be in line with the similar treatment of CSR expenditure given to CIAL at Cochin International Airport.

		Accordingly, we submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, Goa Airport on the other hand seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector. It appears that Goa Airport wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses. We submit that there should not be any increase in manpower till the existing manpower is effectively utilised as it will take another two (2) - three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced, particularly in view of the new MoPA airport coming up soon. Without prejudice to the above, Goa Airport needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years to three (3) years.
10	**Methodology of tariff Determination (Application of Hybrid Till Vs Single Till):**	We submit that in Para 3.1.2 of the Consultation Paper, it is stated that the AERA shall determine tariffs for using the 30% Hybrid Till model including for true ups as applicable. It is to be noted that we have from time to time, advocated the application of a Single Till model across the airports in India. We submit that AERA should adopt Single Till basis across all Control Periods, including by way of true up, in view of the following legal framework: In the Single Till Order, AERA has strongly made a case in favour of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the AERA has, inter alia, in its Single Till Order: (i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.

		(ii) Considered the legislative intent behind Section 13(1)(a)(v) of the AERA Act. (iii) Concluded that the 'Single Till' is the most appropriate for the economic regulation of major airports in India. (iv) The criteria for determining tariff after considering standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO. Further, AERA in its AERA Guidelines (Clause 4.3) has followed the 'Single Till' approach while laying down the procedure for determination of ARR for Regulated Services. The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be considered by the AERA.
11	**Tariff:** (Refer 18.2, Table 63, 64 & 65, Annexure II of the CP)	1. **Overall Tariff:** AERA has proposed increase in the Parking Charges of around 15% on Year 2 of the Third Control Period (and going up to a cumulative of approximate 33% by end of Year 5); and has proposed increase in the UDF of around 16% on Domestic Passengers (and 8% on International Passengers) on Year 2 of the Third Control Period (and going up to a cumulative 41% and 20% Domestic Passengers and International Passengers respectively by end of Year 5). Without prejudice to the above, it is in the interest of all the stakeholders that the proposed tariffs be reduced in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector.

		AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned in this Annex – B, which is likely to reduce the ARR of Goa Airport. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines. 2. **Collection Charges:** We would like to invite AERA's attention to Para 18.2.2 of Annexure II of the Consultation Paper that the rate of collection of UDF charges has not been clarified. We understand that such rate of Collection Charges being clarified in other Consultation Papers is Rs. 5 (Rupees five only) per departing passenger. We request that the same is clarified in the Tariff Order for Goa Airport. We further request that the Collection Charges the entitlement for airlines, should be against Goa Airport having received the 'undisputed' invoiced UDF amount with the applicable due date.