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To whom it may concern:

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR COCHIN INTERNATIONAL AIRPORT (COK) FOR THE THIRD CONTROL PERIOD (04/2021-03/2026)

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

The aviation industry is facing the biggest challenge of its history; restarting an industry that has essentially ceased to operate across borders while ensuring it does not become a vector for the spread of COVID-19. All while taking an unprecedented economic hit that has crippled the industry and threatening its survival. Although we expect airline losses to shrink in 2021 compared to 2020, financial performance will be worse than what we expected in our December 2020 forecast (2021 net post-tax losses forecast at \$47.7bn¹ vs \$38.7bn in the December 2020 forecast).

Contrary to the misconception by some; airlines have not been bailed out by governments but in reality, they have accumulated more debts in addition to capital injection from shareholders to help them tide through this period of great uncertainty. However, airport operators are generally demanding/expecting to recover their losses from their users which further substantiate the notion that they possess market power as there is no such 'loss recovery' in normal/competitive markets. Hence, the role of AERA as the economic regulator is critical to bring the necessary balance and protection for airport users.

IATA is cognizant that existing frameworks are not intended to cover this exceptional circumstance brought about by the COVID-19 crisis. For this reason, we will provide a number of recommendations in this submission to deliver a balanced outcome for both the airport operator and users over the long term, on top of the good work already done by AERA so far to address this unprecedented situation.

1. Capital Investments

Freeze of Non-Essential Capital Investments: Given the extreme cost pressures on our industry collectively, minimizing all unnecessary costs is of utmost priority. It is necessary to reduce financial exposure by stopping all non-essential projects and in particular capacity enhancing projects in control period 3, particularly given the large-scale investment in capacity made in CP2.

Regarding CP2 true-up, we note AERA's comments most of the projects were completed within estimated costs and about 80% have progressed well. This is positive, however does not automatically mean investments are efficient. We request AERA scrutinizes projects for their capital efficiency versus normative costs and accounts

¹ April 2021 Forecast by IATA



for this in its determination reference 4.4.40 Table 19. Only when projects have been deemed as efficient should they enter the RAB and not only based on their final accounts i.e. benefits delivered to program, cost, quality and benchmarked, even if these projects have come in under budget that could be attributable to scope changes rather than efficiency.

We propose a freeze of the CAPEX portfolio across all projects pending a review of project investment files and their associated Business Cases, as these have not been re-assessed since April 2018 AUCC, including those that are under construction to ensure they are viable to proceed considering Covid-19 impacts.

We note CIAL's comments and AERA's replies regarding partially completed projects proposed to be carried forward to CP3 - such as additional parking bays. We request the requirement for the remaining 145 crores project is determined by the need for additional parking bays linked to traffic forecasts and recovery reflected in a Business Case.

For clarity, we request the following discipline is applied in advance of CP3 projects proceeding:

- More detailed AUCC consultation in accordance with AERA's Consultation Protocol requiring project investment files (Business Case) with sufficient details for users to clearly understand costs, benefits, return on investment, depreciation, impact on user charges and other project dependencies. Part of this assessment should be a "do nothing" option as a basis to help consider the case for investment.
- A re-assessment of capital cost estimates and final accounts to assess their capital efficiency and ensure users receive best value in any investments, benchmarked against AERA's normative costs.
- Any pre-funding / charging for assets under construction should be immediately stopped. Alternatively, they can be redirected to cover any shortfall and maintain or lower other fees.

CAPEX for CP3:

A) Cargo Facilities

Regarding Capex proposals we note the construction of import warehouse and mechanisation of the existing warehouse are well under way. Regarding the modification of the existing warehouse we would like to review the Business Case to justify the investment, noting the following points:

- What will be the total capacity of CIAL's cargo facilities on completion of these projects when compared to demand?
- A phasing strategy could spread costs for modification of the existing warehouse (35.94) across CP3 and beyond, rather than construct capacity to 2031 in CP3. Has this been considered by CIAL? While we do not have the minutes of the AUCC meeting in April 2018 to present plans to the airlines, it is unlikely that a Business Case with robust financial data and qualitative explanations were reviewed in detail.

B) Construction of Parking Bays Phase II and Development of Northern side of T3 Pier

The impact of Covid following the AUCC meeting held in April 2018 requires a review of the project investment files and Business case to justify these investments now, in advance of them being included in the CP3 determination. The traffic forecasts, mix of aircraft types and airport planning assumptions should also be validated with the airline community.

It is concerning to read statements that are inaccurate from an airport planning perspective, resulting in the need for a review of these investments - as set-out here:

Construction of Parking Bays Phase 2:

- PIF requires reassessment – not the case that contact gates deliver faster turnaround especially for Code C aircraft. Many airlines would disagree with a walk in walk out process.



- What is the overall number of stands required across the airport, terminal and by type considering post-Covid traffic forecasts / design day schedule?
- What level % of pier service and pax experience has been agreed with the airline community to determine the number of contact stands required within the overall stands count? This determines if contact gates are needed.
- Capex costs - base cost in addition to inflation should be reviewed and benchmarked versus the market for cost efficiency purposes. The construction market has potential for greater competition during current times.

Development of Northern side of T3 Pier:

- Reference is made to ADRM 7 and ADRM 10th edition as the latest version, which is not correct. The latest version is 11th Edition and provides updated guidance that may make a material difference (*IATA can advise as required on latest best practices while noting all airports are different*).
- There is a need to be convinced that width of the pier needs to be extended from 35m to 55m to accommodate peak hour demand – 35m width for operational purposes should be more than sufficient. Where is the bottleneck and why? Is this just the entrance or the pier itself? What planning and operational assumptions have been made regarding sub-systems, seating arrangements and integration with retail areas?

Further analysis is required before these projects are approved to test the need for investment now, consider Covid impacts and user impacts / costs.

C) CISF quarters

We agree with the Authority's proposals until the case is proven for investment.

D) IT Requirements

There are a broad range of projects with basic scope details - from efficiency to security to regulatory. However little information is available regarding the return on investment or PIF. We request these details are shared for review and re-assessment before being considered for inclusion.

E) Fire and Safety Measures

Fire Tenders: We agree with the Authority's assessment of Fire Tenders to adjust the price and account for efficiency.

F) Construction of parking bays 37 to 40, extension of taxiway J up to H, construction of taxiway K and taxiway west of A to isolation parking bay: We agree with the Authority to consider this project in CP4 subject to a re-assessment of the PIF and business case.

G) PCA and GPU: We request an overview of the PIF and Business Case. While in principle these are positive green investment, an understanding of the investment case is welcome taking users needs into account. We request the total costs including power supply are accounted for in the PIF.

H) Other major capital expenditures

We agree with the Authority's assessment following it's normative costs benchmarking exercise.

In summary, we request additional PIF details to assess the return on investment for users funding investments per our comments. We do not have the assurance at this point that all projects are justified, requiring further dialogue and consultation with the airline community.



We also reiterate that projects shared in a single session in April 2018 have not been reviewed and assessed in sufficient detail to warrant their approval. We would suggest an additional AUCC meeting is called to review subsequent to detailed PIF's being shared. A clear link to specific project outcomes, benefits and service quality would be ideal.

We thank the Authority for its consideration in these matters.

2. Traffic

This seems to be in alignment with our overall forecast of recovery by 2024 for international traffic. Domestic should recover faster by 2023. (Table 72). IATA broadly agrees with AERA's validation of CIAL's traffic forecast projections referenced in 5.2.18, Table 72, within the context that due to pandemic uncertainties, variants and related government policies there remains considerable uncertainty regarding what will actually materialise, much more so now than in pre-Covid times.

As such and to ensure we avoid unnecessary and unwarranted investments related to these forecasts:

- Scenarios are developed including a Low, Base and High growth scenario linked to government policy (and major airlines) scenarios whilst also taking account of valid industry forecasts.
- Identify clear "demand triggers" for any future investments in capacity, linked directly to existing capacity of facilities and traffic forecasts to determine when additional facilities are required. This is a well-established airport planning tool that involves overlaying infrastructure triggers on traffic scenario's to balance capacity and demand, while taking account of construction lead times, levels of service and minimising impacts to existing operations.
- As said, detailed consultation with the airline community via AUCC. All capacity enhancing project proposals for CP3 should be excluded as will not be required in CP3, or feasibly for the following period given the large-scale investments in capacity in CP2.

3. Operating Costs

Deep and sustainable cost reductions are the necessary starting point for the industry's economic recovery. Airlines have managed to dramatically reduce their operating costs by 45%, including a 39% reduction in employment costs and a 54% reduction in maintenance cost.

Globally, most airport costs are associated with operating expenses. We have seen positive examples of cost reductions among airports so the argument that most airport costs are fixed is not correct. Some have been able to reduce their operating expenses by 30%. The majority of these savings are a result of third-party expenses, linked to traffic volume being reduced, as well as receipt of government aid in the form of wage subsidies. Operating expenses reductions in 2020 for some large European Airports in the range of -28% - 48%: AMS group -28%; AdP group -43%; AENA -20%; DAA group -47%; Fraport group -40%; CPH -43%; VIE -48%; ZRH group -35%; and Malaysia Airports -36.3%.

6.3.3: We also noted that despite the much lower traffic during the pandemic, CIAL has maintained its cost level at pre-COVID level. With staff costs representing a major element of an airport's cost base (34% according to ACI), additional sustainable cost reduction measures are required moving forward. This may include elements linked to outsourcing or re-evaluation of function as demonstrated by some airports restructuring programs. Ensuring operating costs are efficiently incurred (and in line with the current levels of traffic).

Airport infrastructure also needs to be re-thought and optimized after this crisis as well as the deferral or cancellation of unwarranted investments to increase capacity, until demand returns. A lack of focus on efficiency



over the past several years has led to airports that are not fit for purpose, costly and larger than they need to be. Instead, airports need to double down and focus on maximizing the capacity of their existing infrastructure.

We would query on how much OPEX has been adjusted on account of the downturn? Greater scrutiny of contracted services from suppliers e.g. CUTE operating expenses which is being assumed to escalate 10% annually. Given the challenges brought by the COVID-19 crisis, it is imperative that CIAL re-negotiates the best deal and seek for lower costs from its suppliers (e.g. the contract with Glidepath valid up to FY2026).

IATA would expect CIAL to rationalize its expenses (including staffing level) to correspond to its operation in degraded capacity mode during the pandemic and the subsequent recovery period. There is a need for airport to optimize its operation and reduce costs (without compromising safety) in light of the crisis. A year-to-year projected increase is simply not justifiable under current environment. IATA is keen to learn more about any cost optimization measures by CIAL in response to the pandemic as practiced by other major airport operators in the region and the reduction in OPEX. AERA should then determine a level of efficient OPEX that is aligned with the current level of traffic. A number of airports around the world have been taking measures to minimize costs and CIAL should be no exception.

7.2.2 O&M expense per pax comparison with comparable airports such as Goa Airport which has a similar traffic level (9.75m vs 8.32m) shows a significant difference (INR169 vs INR46). It was noted in the consultation paper that when a similar comparison is done based on terminal area, the employee expense per sqm of terminal area is higher for CIAL only when compared with Goa Airport but is lower when compared to other airports in Table 18.

7.2.6.2 "On overall basis, CIAL airport is seen to have a lowest O&M expenses per sqm of terminal area when compared with remaining airports"

However, this could also reflect overprovision which resulted in large terminal area, low passenger numbers and high O&M costs per pax or ATM overall.

7.4.2. "However, due to the variability in factors between different airports, regulation of expenses based on external benchmarking does not seem appropriate."

This could be true to a degree but still is useful to trigger reviews of areas of concern and opportunity for improvement. IATA recommends that a baseline based on past expenses levels is set and an expectation of a reduction in expenses per pax (and per ATM) is built-in going forward to better reflect the efficiency opportunities resulting from increasing traffic and economies of scale. The baseline should also take into consideration the corresponding reductions in expenses expected as a result of the pandemic and lower traffic.

4. Introduction of Aviation Security Fee (ASF) and removal of PSF(SC)

IATA would like to have more clarity on the funding aspect for costs relating to security function and the obligation of CIAL given that a separate charge is now collected through the Aviation Security Fee (ASF) from passengers following the removal of the PSF(SC), administered by the central authority. We also noted the significant increase in the ASF rates effective July 2019 (international passengers from USD3.25 to USD4.84 or 49% and domestic passengers INR130 to INR150 or 15.4% plus GST) and again from 1 September 2020. These two rounds of increases represent a significant increase in the ASF rates of 60% and 23% for international passengers and domestic passengers respectively in a short span of time. Rightfully, all cost items relating to provision of security functions should now be excluded from the calculation of the targeted revenue of CIAL and provisioned for by the authority managing the ASF fund. We also noted that this approach is being applied to Raipur Airport in the 1st Control Period whereby security costs have been excluded in the determination of ARR.



6.2.26. Therefore, the Authority proposes to not consider the capital expenditure towards CISF quarters at this stage, till additional inputs as discussed above are available.

IATA supports AERA's proposal to exclude the capital expenditure towards the CISF quarters at this stage but a firmer and more conclusive position is needed to ensure funding for security function is made available through the ASF going forward following the removal of the PSF (SC).

5. Fair Rate of Return

The continuation of the true-up approach by AERA for all tariff determinations in effect means that there is No significant risk for the airport operator. The WACC needs to reflect the same. We recommend a lowering of the WACC in recognition of the fact that truing up demand by AERA eliminates the risks faced by the airport operator to a significant extent.

6. Treatment of Refundable Security Deposit (RSD)

As with the second control period, IATA notes that CIAL has considered RSD of INR 150 crores received from the Fuel farm operator as equivalent to debt for calculation of Fair Rate of Return. IATA's position is that RSD is essentially finance at zero cost (if utilized for project) to CIAL i.e. what is received without any cost by CIAL cannot be used by CIAL to earn a return for its own benefit. Any such benefits of the 'temporary' utilization of the fund should be to the benefit of the aviation community rather than to prop up CIAL's profit. However, we understand that this issue came out from a recommendation by TDSAT and some stakeholders had taken the matter to courts for adjudication, and that the Tariff Order would be subject to the final outcome of the adjudication.

7. Return on Land

IATA supports the Authority's proposal in this regard to provide return on the cost of land earmarked for future use, when the same is put to use.

8. Depreciation

The building block depreciation is derived from the asset base and thus directly linked to investments. As such, rationalizing new investments would minimize increases in depreciation. Since the rate of depreciation of an asset is related to its useful life, it is recommended to pursue the lowering of the level of depreciation by extending the life of assets (where possible). Depreciation timelines could be reviewed again to ensure alignment to global recommendations as outlined in ICAO's DOC 9562, 9161, and the IATA Airport Development Reference Manual (ADRM).

In certain cases, depreciation also covers complete write-offs of existing infrastructure, e.g., with the aim to replace. Such write-offs require a full review with regards to the immediate need in order to identify the possibilities of avoiding them and to postpone such write offs into the future.

IATA supports the approach taken by AERA to revise the useful life of assets in Table 111 but would encourage CIAL to seek opportunities to extend the life of these assets where possible in the most cost efficient manner by closely monitoring their performance and maintaining them properly.

9. Recovery of losses / shortfall

Airport operators need to also adjust to the new market realities and be mindful that increased charges will hinder the industry recovery and prevent us from realizing the full potential of aviation and its overall benefits to the wider economy. Shareholders of airport have the obligations (as you would expect for any other commercial entities) to provide the necessary capital injection to sustain the business. In a competitive environment,

shareholders of an efficient company can benefit from dividends, but are also expected to invest into the company during off years. The concept of revenue loss recovery does not exist, and any potential financing risk should be a subject addressed by the airport shareholder, not the consumer.

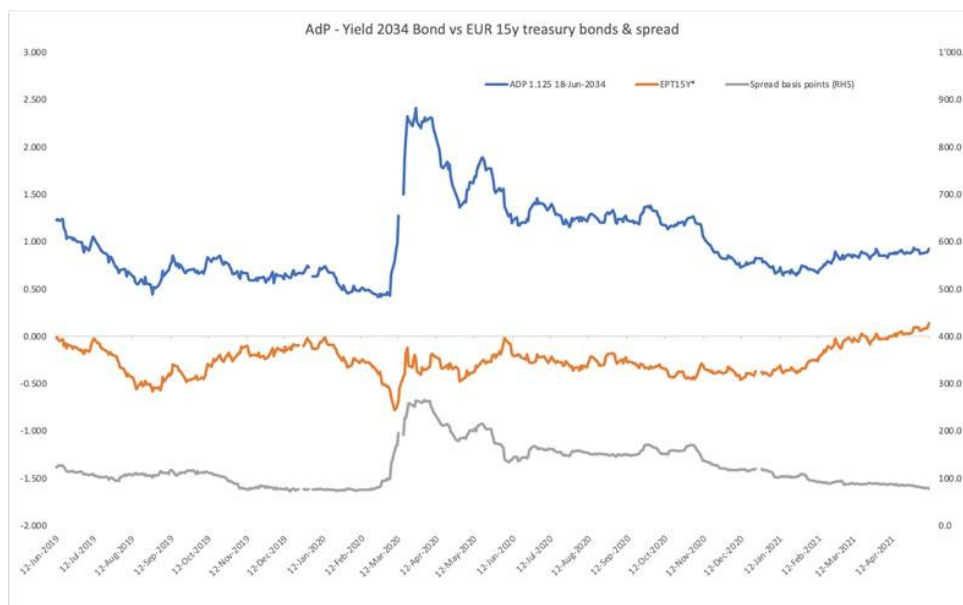
In addition, given that airport operators have better access to more economical financing options, we would expect that this is considered more earnestly, to minimize the short- and medium-term cost impact to users.

According to our analysis of key airport groups, the majority managed to access private sector financing and especially regulated airports have no difficulties accessing capital markets. There are various examples of airports funding their cash shortfalls through debt provided by bank loans or bonds in the market.

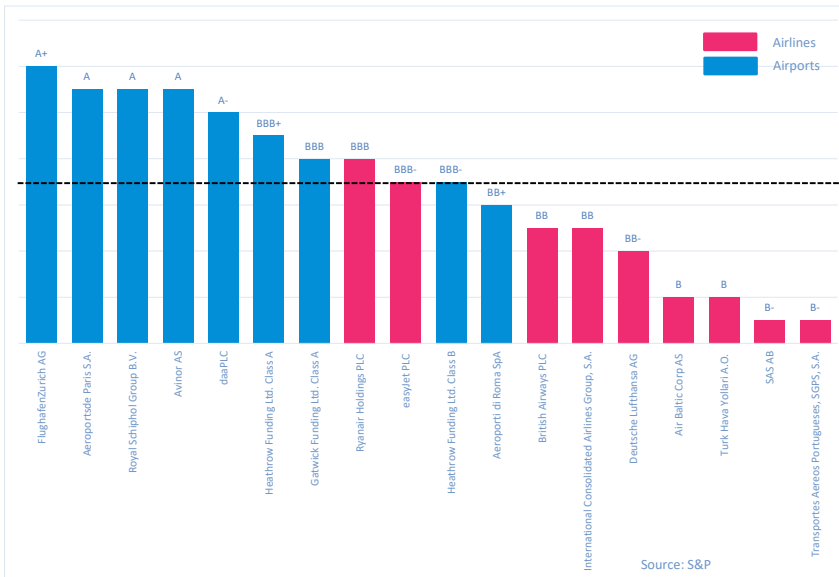
Key examples:

- Fraport has issued a bond worth 1.15bn € at an annual yield below 2%.
- Schiphol issued a 750m € green bond with a 2% yield.
- Aeroporti di Roma issued a 500m € sustainability linked bond with a yield of 1.8%

This demonstrates that airports can finance short-term losses without increasing costs to the customer. For those airports analysed, the average cost of debt actually decreased, which confirms that airports are perceived as safe investments for the market.



This is further expressed in the **yield evolution of airport bonds** (e.g. the implied interest rate an investor would earn from a bond given the purchase value and the established "coupon") as shown in the graph for the example of the Aeroports de Paris (AdP) bond.



While some minor adjustments were made in airport **credit ratings**, airports are clearly still perceived as safe investments

We would urge AERA to consider the merit of postponing the recovery of losses or shortfall to the 4th Control Period – similar to the decision taken for the 1st Control Period (4/2020-3/2025) of Tiruchirappalli International Airport (TRZ) in December 2020. Alternatively, spreading it over multiple control periods will also help to minimize the impact on users and aid the recovery of traffic. It is essential that charges are maintained at current level in the next 2-3 years if there is no scope for reductions in the 3rd Control Period.

10. UDF Introduction by CIAL

We understand that CIAL has requested that a UDF (with annual increases) be introduced for domestic and international passengers respectively in a process parallel to the 3rd Control Period charges setting process. In addition, CIAL is requesting that the PSF (FC) is eliminated by merging it with the UDF. This approach to introduce the UDF and remove the PSF (FC) is acceptable but IATA would like to request that the gap between international and domestic rates be minimized where possible from the very start; or to be done in phases over the control period while still delivering the targeted revenue for CIAL.

11. Discriminatory Tariffs Structure for CP3

IATA notes that the Telecom Disputes Settlement and Appellate Tribunal (TDSAT)'s Order No 18/2018-19 issued on 16th December 2020 found that *"The practice approved by AERA permitting different treatment to Airlines in respect of landing and taking-off charges and parking charges is discriminatory and impermissible."* Given that there is now a clear direction to address this discriminatory practice, IATA respectfully request AERA to equalize these aeronautical charges for international and domestic flights.

12. Service Level Framework

IATA has highlighted in our past submissions on the need for improvements to the existing framework that is predominantly driven by ASQ standards, which is qualitative and perception based; while completely overlooking quantitative, objective measurement of CIAL's actual performance and the customer (airline users) – supplier relationship.



IATA provides industry guidance regarding [Airport Service Level Agreements](#)² broadly used across best practice airports, and we strongly encourage adoption of our policy in users and consumers interests. This will also assist AERA in conducting a more objective assessment of the service level performance of the airport operator.

In summary

- We welcome AERA's thorough review of CIAL's proposals and propose a more realistic and justified ARR. These proposals will lead to a charges reduction that would certainly help to stimulate the recovery.
- We believe that there are further elements for AERA to consider that would help it improve its assumptions:
 - A capital investment freeze is essential now for all but essential projects given the crippling impacts of COVID-19 on airline finances and traffic demand.
 - A further review of opex assumptions to better take into account the efficiencies needed to face the effects of COVID, as well as disallowing certain expenses.
 - A reconsideration (i.e. lowering) of the WACC in recognition that truing up demand substantially reduces the risks faced by the operator
- Deferring any increases in charges to the 4th control period, similar to the decision taken for Tiruchirappalli International Airport (TRZ) in December 2020 or spreading the recovery of shortfall over multiple control periods.
- Equalizing the landing and parking charges for international and domestic flights as directed by TDSAT.

We thank AERA for its consideration of these points in order to provide a balanced determination taking into account the needs of users and ultimately consumers.

IATA is also available for any further clarifications that AERA may require during the review process of the stakeholder submissions, to the AERA Consultation paper for COK airport for the 3rd Control Period.

Yours Sincerely,

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² <https://www.iata.org/contentassets/4eae6e82b7b948b58370eb6413bd8d88/airport-service-level-agreement.pdf>