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Dear Sir,

IATA COMMENTS ON AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR NETAJI SUBHAS BOSE INTERNATIONAL AIRPORT (CCU) FOR THE THIRD CONTROL PERIOD (TCP) (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 still reeling from the impact of the COVID-19 crisis with expectation of a long and protracted recovery, especially for the international traffic. 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 even more critical to bring the necessary balance and protection for airport users during these challenging times.

The consultation paper for the determination of Aeronautical Tariff for Netaji Subhas Bose International Airport (CCU) for the Third Control Period critically examines each of the building blocks for tariff determination. IATA is generally in agreement with many of AERA's proposals but would like to provide some specific comments for consideration by AERA.

1. True Up for the Second Control Period (SCP)

IATA supports AERA's proposal to exclude financing allowance and Return on Land sought by AAI in the Second Control Period. These are unjustified for the reasons stated by AERA in the consultation paper.

It is imperative that airports do their utmost to reduce and optimize their costs. Regrettably, we don't see much focus on this aspect, or if current measures are adequate to ensure the commercial sustainability of flights going forward.

We remain concerned about the clarity on funding for aviation security, which is the responsibility of the State and hence should be funded as such through the Aviation Security Fee (ASF).

The proposed FROR is still on the high side, especially given AAI's status as a government linked enterprise and traffic risks being excluded due to the true-up approach by AERA.

Regarding capital investments, IATA compliments AERA for its scrutiny and assessment that has been very methodical, however would like to raise some fundamental concerns. SCP capital additions and changes in scope were not consulted upon with the airline community and were unilaterally applied which ignores and undermines AERA, users and the AUCC Consultation process and obligations. In principle, none of the capital additions should be included or the airport is most likely to continue to pay lip service to user funding investments, which may or may not meet their operational and passenger's needs or have a business case strong enough to warrant their approval.

We note the need for investment in security infrastructure that could not be anticipated before the start of the SCP. However, we also request AERA to take account of the following important points:

- Clarify Rs. 78.31 Cr. should be funded through ASF and therefore is not allowable in SCP
- Confirm Item 2 - 6 automatic tray return systems with DV X ray Rs. 9.29 Cr. and Item 6 Biometric access control system - Kolkata Rs. 6.98 Cr. are critically required for security processing and mandated by regulation. If not and for efficiency, what other options were considered? We consider these items should not be allowable for true-up unless fully agreed by the airline community
- Has AERA assessed security costs in line with normative cost benchmarks or conducted independent analysis for capex efficiency?

IATA disagrees with AERA's proposal to approve the remaining items 6-17 in Table 14 noting its efforts to adjust costs. These items were added unilaterally and without consultation with the airline community and may or may not be required. Approving these projects based on retrospective analysis of airport scoping and tender documents under the auspices of efficiency sends the wrong message to the airport and users. Where are the Project Investment Files and efforts to consult with the community on what amounts to a significant amount of capex. It is easy for the airport to ignore users consultation and assurances to users on what investment is required.

We therefore disagree with the true-up of Rs. 357.75 Cr. for Table 17 under Items IV "not approved in SCP but capitalised" and respectfully request AERA to reviews its position.

Regarding the remaining proposed aeronautical capital additions in the SCP, we respectfully make the following comments:

- Reference I Approved and Commissioned Projects – we agree with a true-up of Rs. 243.72 Cr. The overspend of approved projects of Rs. 29.62 Cr. should not be approved without prior consultation on scope changes with the airline community via a change control process through the AUCC.
- Reference II Approved in SCP but deferred to TCP – the rational to defer the majority of Rs. 110.61 Cr. investment seems unclear for most projects. The benefits associated with these projects should be delivered as planned or the airport held to account unless agreed to with users via the AUCC e.g. penalty applied to as a % of the project value to incentivise airports.
- Reference III – Approved in SCP but dropped – again the rationale for major changes should be discussed regarding dropped projects to ensure users agree they are no longer required. A major change. In particular a major change in terminal development strategy should be agreed with users as there will be significant dependencies with TCP investments, in particular that relates to

the Extension of airside corridor at terminal T2 (international and domestic). In this respect the total cost of the terminal development should be reviewed and agreed alongside the PIF before any investment is incurred. We do however support the decision on shifting the capitalization of new integrated terminal building Part 2, to the next control period.

- Reference V – we agree with AERA's assessment of Rs. 23.0 Cr.

2. Traffic for Third Control Period (TCP)

AERA's proposal is realistic and in line with IATA's own expectations for recovery. The traffic forecast submitted by AAI was much more conservative.

3. Regulatory Asset Base and Depreciation for Third Control Period

IATA welcomes AERA's scrutiny to reduce capex per table 72 from Rs. 1066.26 Cr. to Rs. 818.70 Cr. While noting efforts to consult with the airline community in September 2021, few details have been shared by the airport regarding the design, development process, concept of operations, outcomes, level of service, capacity, flexibility, resilience, and fit with the master plan regarding these projects (particularly in the content of Covid-19 pandemic impacts) that make it difficult to assess the need and whether the optimal option has been selected. For instance:

- Metro extension - for a 200m distance it is feasible to have travellators at a much reduced cost – why is a metro extension required at presumably much greater cost? Have all the options been thoroughly considered by the airport and consulted with the airlines?
- A significant shift in terminal plans/design has been proposed that may well be beneficial to the airline community, however to our knowledge few details have been shared or consulted upon on with airlines regarding capacity, LoS, future expansion potential and operational costs for example.
- Deferral of SCP-TCP projects – there is underlying assumption these projects are still required. Is this the case agreed to via consultation with the airline community?
- If SCP projects are still required, 1% penalty should apply for non-delivery unless specifically agreed to by the airlines. This should also be applied retrospectively for SCP true-up per other regulated airports.

IATA supports the proposal by AERA to exclude some capex items from TCP such as the CISF complex pending a clear business case. In addition, this should be appropriately funded by the revenue generated through the ASF. Airport users should not be paying twice, once through the ASF and also through the PSF or UDF for aviation security expenses.

Capital investments should be limited to only essential projects to meet safety and security requirements. We call for deferral of other projects until such time there is more certainty of the business case to do so. In addition, IATA would like to continue highlighting the need for ongoing, more structured consultation with the airport community on capital projects and to review options, both planned and those in progress especially when changes are being considered. We see that some projects in the second control period have been adjusted (increase in scope, costs, delay, not delivered) but without the necessary consultation with the airport community. We request AAI as the airport operator to establish an airport consultative committee with nominated industry representatives which meets regularly, and not just resorting to a one-off AUCC before the tariff determination by AERA every 5 years. We hope this process can improve going forward. IATA has shared some global best practices on consultation and would be happy to provide further guidance. IATA supports the proposal by AERA to consider a terminal building ratio of 90:10. Modern terminal designs have evolved resulting in reduction of aeronautical footprint (e.g. increased efficiency) required to facilitate the processing of passengers and their baggage. Percentage wise, non-aeronautical footprint would naturally experience an increase as airport operators focus on generating more non-aeronautical revenues.

4. Fair Rate of Return for the Third Control Period

Comparing with global benchmark, the fair rate of return proposed is still considerably high and doesn't reflect the reality of the market condition. In addition, the continuation of the true-up approach by AERA means that there is no significant risk for the airport operator despite the uncertainty in the market. Hence, the WACC needs to reflect the same.

5. Return on Land

IATA supports AERA's proposal to disallow a Return on Land.

6. Operating and Maintenance Expenses for the Third Control Period

There is opaqueness around the corporate and regional expenses that are being passed on to be borne by airlines and passengers flying from CCU and it is not clear what is their relationship with services delivered at the airport. This is not in line with ICAO's principles of transparency and cost-relatedness. And we would urge AERA to delve deeper into the allocation of CHQ & RHQ costs to individual airports to eliminate the risk of cross-subsidization of airports managed by AAI, especially those which are not regulated by AERA.

7. Non-aeronautical Revenue for the Third Control Period

IATA supports the proposal by AERA to increase the projected non-aeronautical revenue for the TCP which more closely reflects the traffic projection. If the airport operator insists that aeronautical traffic does not have a bearing on non-aeronautical revenue (as claimed in the consultation meeting on 18 January 2022), theoretically for this to be true, there shouldn't be a decline in non-aeronautical revenues in the SCP due to the COVID-19 crisis.

8. Taxation for the Third Control Period

IATA has no further comments and supports AERA in lowering the tax projection provided by AAI in the TCP.

9. Inflation for the Third Control Period

IATA does not support the approach in passing on inflationary costs to airport users. This is simply not a standard practice in a competitive environment as commercial businesses would strive for greater efficiency and costs management to offset inflations as a first resort.

10. Quality of Services for the Third Control Period

Despite positive results from the assessments by ACI's ASQ which is subjective in nature, feedback from local aircraft operators indicate that service levels have degraded. We request AERA to supplement existing requirements with a robust program to assess the service levels in a quantitative manner. IATA has provided some guidance on best practices to AERA in the past and would be happy to support the effort by AERA to improve this aspect.

11. Aggregate Revenue Requirement for the Third Control Period

IATA requests AERA to further adjust the ARR downwards to reflect the suggestions made in the respective sections above.

12. Aeronautical Revenue for the Third Control Period

IATA supports AERA's recent tariff orders for BLR & HYD where the charges will reduce in the last quarter of the control period in order to moderate a constant increase of user charges. We see that AERA is proposing the same approach for CCU.

Regarding the discriminatory practice for some charges such as landing and parking charges, we request AERA to consider narrowing the gap. This would also aid in the recovery of international traffic for CCU and would benefit all stakeholders over the longer term.

We thank AERA for its consideration of all the points raised in this submission in order to provide a balanced determination considering 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.

Yours Sincerely,

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