Federation of Indian Airlines
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MOST URGENT

27 October 2021

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003.

Kind Attention: Shri. B.S. Bhullar, IAS

Sub: FIA Response to Consultation Paper No. 19/2021-22 dated October 7, 2021 on determination of tariff for Cargo Handling Services in respect of M/s Concor Air Limited ('CAL') at Chatrapati Shivaji Maharaj Intr. Airport, Mumbai ('CSMIA'), for the third control period (FY 2021-22 to FY 2025-26)

Dear Sir,

We, Federation of Indian Airlines (**FIA**) on behalf of our member IndiGo, Spice Jet, Go First, write in in response to the Consultation Paper No. 19/2021-22) dated October 7 , 2021 issued by the Airports Economic Regulatory Authority of India ("**AERA**" or "**Authority**") in the matter of determination of tariff for Cargo Handling Services in respect of M/s Concor Air Limited ('CAL') at Chatrapati Shivaji Maharaj Intr. Airport, Mumbai ('CSMI, AIRPORT') for the Third Control Period (FY 2021-22 to FY 2025-26) ('**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.

In the Consultation Paper, AERA has proposed not to increase the existing tariff for FY2021-22 and thereafter proposed a staggered increase in tariff rates @15% w.e.f. 01.04.2022 and 10% YoY increase for remaining period of the Third Control Period for M/s. CAL, Mumbai.

While we acknowledge no tariff increase in the year FY 2021-22, it is requested that AERA does not implement any tariff increase during the Third Control Period in view of the following:

1. Lack or Inadequate state of cargo infrastructure provided by CAL at CSMI, Airport (as detailed below) and;

2. Impact of COVID – 19 on airlines:

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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.

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 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.

While the airline operations showed an upward trend from December 2020, however the brutal impact of second wave of COVID-19 in March 2021 had again impacted the operations and resultantly prolonged the process of financial recovery. While we appreciate that the Government Restrictions are being gradually relaxed, until the demand for air travel/load is fully restored as seen pre-COVID-19, airlines will continue to face significant challenges in improving the cash flows.

Without prejudice to the above, and as desired by AERA, please find below our recommendations/ comments on the Consultation Paper, as mentioned under **Annex- A**.

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.

Thanking you,

Yours faithfully,

For and on behalf of 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

AERA CP. No. 19/2021-22 dated October 7, 2021 on determination of tariff for Cargo Handling Services in respect of M/s Concor Air Limited at CSMIA for the third control period (FY 2021-22 to FY 2025-26)

1	**Review of Tendering Process** Length of License Agreements (1.1.4 of the CP)	AERA is requested to ensure that CAL does not take the decision to award concession agreements solely on the revenue share being offered. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has 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. Further, for the sake of transparency we would appreciate to know whether CAL is subject to audit by suitable auditing authority, or the Auditor and Comptroller General of India, as the case may be.
2	**Stakeholder Consultation Meeting – Issue of Poor/lack of Cargo Infrastructure** Regarding no complaints from Users during Stakeholders Consultation meeting (Refer 3.2.1 of CP)	Regarding no complaints from Users during Stakeholders Consultation meeting (Refer 3.2.1 of CP) It is mentioned in the CP that no complaints have been received from any User i.r.o. the Cargo Handling services rendered by M/s CAL at SACT, Mumbai. In this regard, it may be noted that Pt. 2 (Post Presentation Discussion – Para 3) of the Minutes of the Stakeholder Consultation Meeting dated 28.04.21, as issued by CAL mentions the shortcomings of CAL, as raised by the Airlines, in relation to lack and consequent provisioning of manpower required for loading of cargo in trucks through Baggage Freight Loader (BFL) in the cargo terminal. In response, the airlines were informed that such provisioning being an additional activity will require changes to the tariff and lead to an additional financial payout/burden on the airlines. Further, we would also like to draw attention of AERA to the issue of lack/ poor cargo infrastructure and facilities/services of CAL (as enumerated below) at CSMI, Airport, which has been repeatedly raised with CAL and not been resolved till date: a. ETV/ ULD weigh bridge facility is not available. b. Lack of sufficient XBIS machines available in the Cargo Terminal. c. Post X-ray, no build up staging area is provided by CAL to the airline's operators.

d. No Cold storage facility developed in SACT Terminal.
e. Since the inception of the cargo facility provision by CAL, there have been peak time congestion issues. Further, no monitoring and mitigation mechanism is deployed by CAL in this regard. CAL should review alternate ways to ensure smooth movement of cargo.
f. Dwell time issues are faced at arrival / docking areas.
g. Airlines are forced to deploy their own manpower to handle shipments.
h. Airlines are incurring the additional cost on procuring the loading equipment's like BFL to load cargo vehicle as same is not arranged by CAL.
i. Lack of basic facilities available in cargo terminal like:
    i. Lift is unserviceable since last two (2) years
    ii. Air Conditioning system is not working. CAL is forcing the stakeholder to arrange at our own cost even after charging full facility / utility charges.
j. No ULD built up electronic facility and space available at CAL unlike other terminals.
k. On an overall basis, the cargo terminal is not designed and viable for freighter operations.
l. The departure and arrival exhaust fans do not function. This makes it challenging to work during hot and humid temperatures.
m. Canteen facilities are poor and during most months in the year, the canteen/cafeteria is closed since vendors have not renewed their contracts with CAL.
n. It needs to be reviewed whether parties sub-contracted by CAL (like M/s Rahul Roadways) are complying with all regulations.
o. Cargo handlers at DIAL, BIAL, and HIAL are providing full common user terminal facilities at respective locations, whereas CAL is not providing such services to its airline operators, and the variable handling cost at SACT is comparatively higher than other cargo terminals.

In view of the above, it is submitted that:

(a) CAL cargo infrastructure facility lacks basic cargo handling facilities and poor infrastructure, which make it an unviable cargo terminal itself. This results in increasing cost to airlines operators as well as for trade partners leading to a financial burden and also results in customers shifting from air cargo to other modes of transport.

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		(b) We request AERA to direct CAL in developing required infrastructure for seamless and effective handling of cargo, without any increase in existing tariff.
3	**Deferment of Capital Expenditure - Regulatory Asset Base** Stoppage of non-safety related capital expenditure (Refer 4.3.1 and Table 2 of CP)	In the current situation i.e., post COVID - 19, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by CAL should be put on hold/deferred, unless deemed critical from a safety compliance perspective. Further, in case CAL 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. 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 AERA. In addition, to ensure that CAL adheres to its Capital Expenditure plans, it may please be considered to reduce 1% of the non-capitalized CAPEX from projected ARR/Target Revenue, as readjustment, in case any particular CAPEX is not completed as per their Capitalization schedule.
4	**Independent Expert Study** Cargo Projections (Refer Table 9 and 5.2.3 of CP)	While we appreciate that AERA has referred to the data on cargo volumes published by AAI, we request AERA to conduct an independent expert study for Cargo Volumetric projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (**AERA Act**).
5	**Abolishment of Royalty Charges/ Concession Fee** Operating & Maintenance Expenditure (Refer 6.2.1 of CP)	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. 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. These charges are passed on the airlines by the service providers. Sometimes it is argued 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.
6	**Operational Expenditure – Drastic Cost Cutting**	It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. We are unaware as to whether CAL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by CAL impacts the airlines, as such cost is passed through or borne mostly by the airlines.

In order to ensure that there is no adverse impact/increase in the tariff, we request AERA should:

(a) Put on hold any increase in operational expenditure by CAL (Refer 6.3.1 and Table 12 of CP)
The total O proposed by AERA for CAL from Second Control Period to Third Control period is projected to rise by 64%, which seems to be unreasonable, considering the above.

(b) Advise CAL 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 CAL. CAL may be advised to reduce its cost by at least 35% and no escalation should be permitted; and

(c) In view of the above, CAL should be directed to pass on cost benefits to the airlines.

(d) Further, we submit that:
(i) Payroll Costs (Refer Table 10 and Table 12, Form F11(a) and form F11(b)):

Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses are proposed to increase around 7.5% Y-O-Y over the five (5) year control period.

In addition, as per details, although the number of staff is projected to remain steady at 33 numbers for all five years of the control period, the staff cost is shown to reduce from Rs. 383.61 Lakhs in 2024-25 to Rs. 343.65 Lakhs, which is contradictory.

In Rs. lakhs

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Payroll Costs	287	308.79	331.95	356.61	383.61	343.65
% Change Y-O-Y		7.5 %	7.5 %	7.5 %	7.5 %	Minus 10.5%
% Change From 2020-21		7.5 %	15 %	24 %	33%	19.5%

		It appears that CAL 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 expenses 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. Without prejudice to the above, CAL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years. O&M Expenses & RAB in Second Control Period: (Refer 6.1, Table 1, Table 10) As per the Actual O&M costs submitted by CAL for 2nd Control Period an amount of 5,194 Lakhs was incurred (as the Repair and Maintenance cost, Utilities and outsourcing costs and Handling Expenses) and an opening RAB of 2,362 Lakhs and closing RAB of 1,937 Lakhs for the FY 2020-21. Despite such a lot of money being apparently spent and invested by CAL, we request AERA to review the infrastructure and service issues highlighted above.:
7	**Aggregate Revenue Requirement** Return on Revenue (Refer 9.2.4 of CP)	Presently, AERA has considered a 14% return on RAB. However, while such fixed/ assured return favours the service provider, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, service providers like CAL 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 hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne mostly by airlines. In the present scenario any assured return on investment to any services providers like CAL, 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. In view of the above, AERA is requested to immediately review the proposed return on RAB to the service providers like CAL and revise all the Tariff Orders (including past orders) by capping the returns to a maximum of three (3) %.