SpiceJet Limited
319 Udyog Vihar, Phase-IV,
Gurgaon 122016, Haryana, India.
Tel: + 91 124 3913939
Fax: + 91 124 3913844

October 29, 2021

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

Kind Attention – Shri. Balwinder Singh Bhullar

Dear Sir,

Sub. : **Comments on Consultation Paper**

Ref. : **Response to Consultation Paper No. 20/2021-22 dated October 8, 2021 on determination of tariff for Cargo Handling Services in respect of M/s Express Industry Council of India ('EICI') at IGI Airport, Delhi ('IGIA'), for the third control period (01.04.2021 – 31.03.2026)**

In response to the Consultation Paper No. 20/2021-22 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 Express Industry Council of India ('EICI') at IGI Airport, Delhi ('IGIA') for the Third Control Period (1 April, 2021 to 31 March, 2026) submitted vide AERA Public Notice No. 20/2021-22 dated 08 October, 2021 ('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 has again impacted the operations and resultantly prolonged the process of financial recovery. At present, the airlines' operations are barely at 65 - 75% (approx.) of the pre COVID-19 capacity and the passenger traffic at around to 60 - 70% (approx.) of pre COVID-19 levels.

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.

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

In the given circumstances, it is imperative that AERA does not take any steps, including by way of increase in tariff, during the Third Control Period, which would precipitate further adverse financial impact on the airlines.

The Consultation Paper proposes an increase/hike in the tariff, as more particularly mentioned hereunder. In this regard, we humbly request AERA to not implement any such increase in the Third Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

Without prejudice to the above, and as desired by AERA, please find below our recommendations/ comments on the Consultation Paper.

1. **Review of Tendering Process**
   Length of License Agreements (1.2.1 and 3.1.9 of the CP)

   The length of the concession agreement of EICI with IGIA/CELEBI is not clear by the present CP however, it has been operating from at least November 2012, and would complete more than 13 years by March 2026. In this regard, Authority should ensure that instead of the Concession agreements being for a period in excess of 10 years, the same should not exceed five (5) years such that there is no monopolistic situation, and in a fair and transparent manner, with the agreement awarded to only those parties which provide best-in-class services at the most competitive (at the least) price.

   Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it 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.

2. **Deferment of Capital Expenditure - Regulatory Asset Base**
   Stoppage of non-safety related capital expenditure (Refer 4.3.2 and Table 3 of CP)

   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. We are sure that EICI can easily cater to its (pre Covid-19) peak level of operations without any new or additional investments post Covid-19.

   Authority has itself noted that it would not be prudent to allow any Capital Expenditure which may place undue burden on the users. In the current situation, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by EICI should be put on hold/deferred, unless deemed critical from a safety compliance perspective.

Further, in case EICI 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, same should be considered by the Authority.

3. Independent Expert Study

Cargo Projections (Refer Table 10 and 5.2.4 of CP)

While we appreciate that AERA has referred to the data on cargo volumes published by AAI, we request the Authority to conduct an independent expert study for Cargo Volumetric projections, in accordance with the AERA Act.

4. Abolishment of Royalty Charges/ Concession Fee

Operating & Maintenance Expenditure (Refer 6.1.1 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 that 'Royalty' on 'Aero Revenues' help 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 Authority to abolish such royalty which may be included in any of the cost items.

5. Operational Expenditure – Drastic Cost Cutting

Companies in private sector have taken drastic measures to cut cost to ensure their survival ability. Even the cost which were considered to be untouchable have been reduced considerably. In the airline world, nobody could have ever dreamt that aircraft lease rentals and pilots' salary could be reduced in such a significant manner but it is a reality today. Airlines have renegotiated every contract what they have. Even salaries of the employees have been reduced by more than 35%. Lot of employees have been retrenched or sent on leave without pay.

We are unaware as to whether EICI 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 EICI impacts the airlines, as such cost is passed through or borne mostly by the airlines.

Further, in view of industry reports from IATA and CAPA, which foresee a minimum period of two (2)-three (3) years for air traffic and flight operations to reach pre COVID-19 levels, we request Authority should:

(a) Put on hold any increase in operational expenditure by EICI;
(b) Advise EICI 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 EICI. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. Accordingly, EICI needs to significantly reduce all such costs in a very aggressive manner. EICI may be advised to reduce its cost by at least 35% and no escalation should be permitted; and

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

(d) In particular, 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 12% Y-O-Y over the five (5) year control period.

In Rs. lakhs

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Payroll Costs	310.96	380.86	427.55	478.59	535.73	599.70
% Change Y-O-Y		22%	12%	12%	12%	12%
% Change From 2020-21		22%	38%	54%	72%	93%

We submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staff, on the other hand EICI 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 EICI 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, EICI needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

6. **Profitability**
   Return on revenue (Refer Table 26 of CP)

   Authority is considering profits for EICI while airlines are suffering historic losses. While assured profits favour 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 assured profits, service providers like EICI have no incentive to look for productivity improvement or ways of increasing efficiencies, 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 profitability to any services providers like EICI, 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, Authority is requested to immediately review the proposed profitability of the service providers like EICI and revise all the Tariff Orders (including past orders) by capping the returns to a maximum of three (3) %.

7. **Tariff Order**
   Authority's Proposal (Refer 11.3 of CP)

   It is disheartening to note that rather than significant reduction in the cost of the tariff, the Authority is proposing an increase of the tariff rates for EICI for Delhi @13% w.e.f. 01.04.2022 and 5% YoY increase for remaining period of the 3rd Control Period.

   In view of the consideration of the points mentioned in this letter, especially in this highly uncertain environment, it is recommended that the Authority may kindly review its proposals and reduce the tariff such that Authority may ensure that profits do not accrue to the service provider at the cost of the airlines and that the end user is not burdened with high tariffs.

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. Needless to state that sustainability of airlines will be key for continuity of EICI and other service providers in aviation sector.

We look forward to your continued support in these challenging times.

Thanking you in advance.

Yours Truly,
For SpiceJet Limited

Suryavir Singh Bisht
Sr. General Manager – Regulatory Affairs

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