Federation of Indian Airlines
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Website: www.fiaindia.in

MOST URGENT

27 December 2021

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

Kind Attention – Shri. Balwinder Singh Bhullar Ji

Subject: FIA submission in response to the AERA Consultation Paper No. 23/2021-22 dated 06 December 2021 on determination of Fuel Infrastructure Fee for BPCL Kannur Fuel Farm Private Limited (BKFFPL) at Kannur international Airport, for the First Control Period (FY 2021-22 to FY 2022-23)

Dear Sir,

In response to the Consultation Paper No. 23/2021-22 issued by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of tariff of Fuel Infrastructure Fee in respect of BPCL Kannur Fuel Farm Private Limited ('BKFFPL') at Kannur International Airport, Kannur ('KIA') for the First Control Period (01.04.2021 – 31.03.2023) ('Consultation Paper' or 'CP').

At the outset, Federation of Indian Airlines (FIA) would like to express its 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.

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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.

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 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 First Control Period given the adverse financial impact of COVID-19.

In fact, we request AERA to review decreasing the existing levy of tariff by BKFFPL, in line tariff (FIC) reduction ordered for other ISPs. For e.g., in the case of Delhi Aviation Fuel Facility Private Limited (DAFFPL) at IGI Airport, Delhi vide AERA Order No. 23/2021-22 dated 7 October 2021 and Indian Oil Sky Tanking Private Limited (IOSPL) at KIA, Bangalore vide Order No. 30/2021-22 dated 7 December 2021.

Without prejudice to the above, and as desired by AERA, please find below FIA's recommendations/ comments on the Consultation Paper:

1. **Review of Abolishment of Royalty Charges**

   As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the service provider under various headings without any underlying services. These charges are mostly passed on to the airlines by the service provider. 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.

   In view of the above, we urge AERA to abolish such royalty/concession fee which may be included in any of the cost items.

2. **Review in Fuel Infrastructure Charges (FIC) & Into Plane Charges (ITP):** (Refer 11 of the CP)

Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines.

We would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by BKFFPL or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) % - seventy (70) % sixty-seven (67) % to Airlines.

We strongly urge AERA to undertake a thorough investigation retrospectively to determine the actual cost of efficient operations and revenues collected by BKFFPL till date. All excess recoveries to be passed on to the airlines and future tariff to be determined based on actual cost of efficient operations.

3. **Review of Fair Rate of Return:** (Refer 6.2 and Table No. 19):

Presently, the Authority provides a Fair Rate of Return (FRoR) to BKFFPL towards their investment. 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. However, due to such fixed/assured returns, service providers like BKFFPL 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 by airlines.

In the present scenario any assured return on investment to any services providers like BKFFPL, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits, will be onerous for the airlines (Refer 6.2 of the CP).

Without prejudice to the above, in case the Authority is unable to accept our recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided in favour of BKFFPL. Such independent study can be exercised by the Authority in terms of powers conferred under the Airports Economic Regulatory Authority of India Act, 2008, as amended, and in line with studies being conducted by Authority in case of certain major airport operators.

4. **Review of Operational Expenditure**: (Refer 7.4 and 7.5 of the CP)

We are unaware as to whether BKFFPL 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 BKFFPL impacts the airlines, as such cost is passed through or borne by the airlines. Further, in view of above, we request Authority should:

(a) Put on hold any increase in operational expenditure by BKFFPL;

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

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

(d) In particular, we submit that:

(i) The O&M CAGR considered by AERA, under para 7.4 of the Consultation Paper, appears to be largely at the rate of 5%, save and except for land/lease rental at the rate of 9%, which appears to be on the higher side/levels considering the present environment of prolonged financial recovery for airlines.

Further, we appreciate that AERA in para 7.4.4 has noted '*The Authority feels that efforts should be made to reduce the costs so that the Fuel Farm can be operated economically with reasonable tariff*' and has further sought further records on Operator Charges (i.e., being 61% of the total O&M Costs) for a detailed scrutiny. However, we request AERA to not consider any escalations, as such escalation will lead to higher tariffs creating an in the process of financial recovery of airlines.

(ii) Payroll Cost (Refer 7.4 and Table No. 20):

FIA submits that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, on the other hand BKFFPL 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

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BKFFPL 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 utilized 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, BKFFPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions for the next control period.

We hope that your good self will positively consider the above recommendations/ comments as it will help in achieving the affordability and sustainability of the aviation sector including 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 BKFFPL and other service providers in the aviation sector.

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)