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September 14, 2021

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

Dear Sir,

Sub. : Response to Consultation Paper No. 15/2021-22 to consider the Multi Year Tariff Plan in respect of M/s Celebi Airport Services India Private Limited for providing Ground Handling Services at Cochin International Airport, Cochin, for the third control period (FY 2021-22 to FY 2025-26) ('Consultation Paper')

At the outset, we would like to express our sincere gratitude to the Airports Economic Regulatory Authority of India (**Authority**) for 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 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 adversely 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 40-50% of the pre Covid-19 capacity and the passenger traffic at around 40 to 50% 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 to pre Covid-19 level, in terms of number of flights and passengers.

You will further appreciate that, while the low passenger demand for air travel/ load coupled with Government Restrictions including on fare and operational capacity, 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 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.

In view of the above, our comments on the Consultation Paper are as follows:

1. **Review of Tendering Process**
   Length of License Agreements (Refer 1.1 of the CP)

   Authority should ensure that instead of the license agreements being for a period of up to 5 years, the same should not exceed three years, in a fair and transparent manner from at least three to four parties, with the agreement awarded to only those parties which provide the competitive costs with best-in-class services, based on cost of efficient operations. Any attempt to award the contracts on highest revenue share basis should be discouraged. It is general perception Celebi that 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 majority of 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 4.1 and 4.2 of CP)

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

   In the current situation, in order to support the airlines to continue and sustain its operations, all the capital expenditure should be put on hold.

   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. Further, in case Celebi 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.

3. **Abolishment of Royalty Charges/ Concession Fee** (Refer Form 11(f) 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.

   The rates of royalty/concession fee being paid by Celebi at Cochin Airport are 46%. These charges are passed on the airlines by Celebi.

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

4. **Operational Expenditure – Drastic Cost Cutting**
   Operating & Maintenance Expenditure (Refer 5 of CP)

   Organizations are always run in an efficient manner and there is constantly an effort for productivity improvement and increasing efficiencies. After the Covid-19 pandemic all the organizations have taken austerity measures whether under public or private sector. Needless to mention that the Central and various state Governments have cut salaries of their staff. Even the Central Government has restricted expenditure for all the Ministries at 20% of approved budget levels for first two quarter of FY 2022.

   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.

There were no scheduled operations between March 25, 2020 to May 24, 2020. After that scheduled operations were commenced in a calibrated manner from May 25, 2020. Scheduled international operations have not yet been permitted. There have been very few international flights under Air Bubble and Vande Bharat Mission. On an overall basis, level of flights in FY 2021 was about 35% of FY 2020.

We are not sure whether Celebi has taken any drastic cost cutting measures including renegotiations of all the cost items on it profit and loss account. We would be grateful to know the austerity measures taken up by Celebi.

Our specific comments on cost related items are as under:

(i) Payroll Costs (Refer 5.3, Table 3):

The CELEBI proposal mentions YoY increase in Operating Expenditures,

Payroll Costs as proposed by the Celebi for 3rd Control Period (Ref. Table 3 of CP)

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Payroll Cost YoY % Increase	-42.8	29.0	28.6	23.7	25.4	18.1

Employee Strength as proposed by the Celebi for 3rd Control Period (Ref. Form 11(a))

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Employee Strength	399	518	605	715	795	834

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 CELEBI seems to have paid full salaries to its staff including annual increments which is completely unheard of, in the same aviation sector. In addition, it appears that Celebi proposes to increase tis current staff strength by three times by 2026, which does not appear to in line with its ATM projections, which may kindly be reviewed.

It appears that Celebi wants to recover its full employee cost from the airlines, which are not even able to pay salaries to their support staff. Celebi needs to considerably reduce salary of its staff and annual increases needs to be put on hold at least for next three years. Salary expenses need to be in line with the level of operations.

(ii) Other expenses:

Companies/organizations always strive to operate in an efficient manner with constants efforts for productivity improvement and increasing efficiencies. After the Covid-19 pandemic, most companies/ organizations, whether under public or private sector, and further the Central/State Governments have implemented austerity measures. Even the airlines, which are facing imbalance in cash flows positions (as explained above), are constrained to implement austerity/ cost control measures, which includes re-negotiating of its contracts.

It may be noted that rather than escalations, across industries all the costs have been renegotiated downwards substantially. Celebi needs to significantly reduce all such costs in a very aggressive manner. Celebi may be advised to reduce its cost by at least 35% and no escalation should be permitted.

5. Review on Fair Rate of Return

(Refer Annexure 1 FRoR of CP)

Presently, Celebi has computed a Fair Rate of Return (FRoR) of 14.06%, which it is also proposing for the third control period. 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.

Further, due to such fixed/assured returns, service provider like Celebi 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 kind of 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 Celebi, in excess of three (3) %, i.e. being at par with bank fixed deposits, will be onerous for the airlines.

In view of the above, Authority is requested to immediately review FRoR provided to the service providers like Celebi and revise all the Tariff Orders (including past orders) by capping the returns to a maximum of three (3) %.

6. Tariff Order

Celebi's Proposal (Refer 6.1 and Annexure-I of CP)

The YoY% increase in tariff for Code C, Code D and Code E domestic freight flight is 50% and 95% on domestic freight flight for FY 2021-22, we suggest that rather than load the increase on FY 2021-22, the same can be spread across the entire 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 the proposal and reduce the tariff such that the service provider and that the end user is not burdened with high tariffs.

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 airline, which is also outlined as key objective in the National Civil Aviation Policy, 2016.

Needless to state that sustainability of airlines will be key for continuity of Celebi 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