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October 21, 2021

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

Kind Attention – Shri. Balwinder Singh Bhullar

Sub. : Comments on Consultation Paper

Ref. : Response to Consultation Paper No. 18/2021-22 dated October 7, 2021 on determination Ground Handling Charges in respect of GSEC Bird Airport Services Private Limited at Chaudhary Charan Singh International Airport, Lucknow ('LKO'), for the third control period (01.04.2021 – 31.03.2026)

Dear Sir,

In response to the Consultation Paper No. 18/2021-22 issued by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of Ground Handling Charges in respect of GSEC Bird Airport Services Private Limited ('GBASPL') at Chaudhary Charan Singh International Airport, Lucknow for the Third Control Period (1 April, 2021 to 31 March, 2026) ('Consultation Paper' or 'CP') submitted vide AERA Public Notice No. 18/2021-22 dated 07 October, 2021.

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.

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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 Ground Handling Charges, during the Third Control Period, which would precipitate further adverse financial impact on the airlines.

The Consultation Paper proposes an increase/hike in the Ground Handling Charges at LKO as more particularly mentioned hereunder. In this regard, we humbly request AERA to not implement any increase in the Ground Handling Charges 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. <u>Tendering Process and Royalty</u>: - (Refer 5.8 of the CP)

a. Tendering Mechanism:

Authority should ensure that instead of the Concession agreements being for a period of 5 years, the same should not exceed two (2) - three (3) years such that there is no monopolistic situation, and in a fair and transparent manner to at least three parties, with the agreement for ground handling services be awarded to only those parties which provide best-in-class services at the most competitive (at the least) price, from at least three to four parties.

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 that service providers have 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.

b. Royalty:

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 passed on to the airlines by the service provider. The rates of royalty at some of the airports are as high as forty-six (46) %. 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. Sometimes it is argued by the service provider 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 Authority to abolish such royalty which may be included in any of the cost items.

2. **Deferment of Capital Expenditure: - (Refer 4.5 of the CP)**

As projected by IATA and CAPA it will take around two (2) -three (3) years for the flight operations to reach to its pre COVID-19 peak levels. Hence, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by GBASPL should be put on hold or deferred from the Third Control Period to the Fourth Control Period, unless deemed critical from a safety compliance perspective. In case the GBASPL wants to make capital expenditure, then it should be not lead to any increase in the tariff until such capitalisation has been put to use.

Further, as it is not clarified or detailed in the CP what the details or nature of the Leasehold Improvements are, we request the authority to kindly review the same, such that the same are acceptable and in accordance to the Authority's practices.

3. **Operating Expenditure: - (Refer Table 5, 5.9 and 5.10 of the CP)**

Authority has proposed to elicit views/comments on:

a. drastic increase in certain O&M components; and

b. new ground handling equipment being under warranty leading to lesser R&M expense.

In this regard, please find below our comments:

a. Drastic increase in certain O&M components:

We are unaware as to whether GBASPL 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 the service provider impacts the airlines, as such cost is passed through or borne 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:

(i) Put on hold any increase in operational expenditure;

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

(iii) In view of the above, the GBASPL should be directed to pass on cost benefits to the airlines;

(iv) In particular, we submit that:

a) Y-O-Y Increase in the Operating expenditure proposed by GBASPL is between 8% -26% between 2021 and 2026. Instead of a significant reduction in cost items of operating expenses, Authority has considered acceptance of these increases. Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under highly curtailed operations, appears without any rationale and should be avoided;

b) Payroll Cost:

Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses are proposed to increase Y-O-Y between 10 % to 12% over the five (5) year control period, with a CAGR of 10.62%.

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 GBASPL 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 GBASPL wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses. In addition, it appears that GBASPL would like to increase the full time employee strength from 123 of 2021-22 to 215 in 2025-26 {as per Form F11(a) of CP}, which is an increase of almost 75%. As the tariff rates proposed by GBSAS appears to be higher the its competitors, it is may not get a majority share of the business, hence this increase in manpower requirement seems unreasonable.

We submit that there should not be any increase in manpower 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, GBASPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

b. New ground handling equipment being under warranty leading to lesser R&M expense:

We appreciate the Authority's concern in this regard, and submit that the R&M expenditure should be almost Zero in the first two to three years, during which the warranty period would be valid. In addition, the R&M expenditure may not be considered to exceed the region of 10% of the asset value, for the period commencing after the warranty period is over. The Authority is requested to consider the same accordingly.

4. Tariff:

a. Annual Tariff for Scheduled Flights: - (Refer 6.4 of the CP)
The rates of increase in tariff are very high, especially in the backdrop of COVID-19. It is in the interest of all the stakeholders not to increase the tariffs in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector.

b. Hike in tariff for International Scheduled Flights: - (Refer 6.6 of the CP)
Authority has proposed to invite specific views/comments in regard to the high tariff hike proposed by GBASPL for international scheduled flights. In this regard, we submit that not only the proposed hike in international scheduled flights is too high, but also the hike in domestic flights are also too high. In our view, no hike should be granted to GBASPL.

Without prejudice to the aforementioned the tariff should be no higher than that approved for AIASL, and in any event should not be more than 2% Y-O-Y, in line with Order No. 23/2019-20 dated 14.02.2020 of the Authority.

c. Additional Services not included in 'Full': - (Refer 6.8 of the CP)
Authority has proposed to elicit the views/comments in regard to the additional service charges proposed by GBASPL. It is not clear why GBASPL has proposed to include the additional services at this stage as the reason for proposing the same has not been mentioned in the CP. Hence, in our view the same should not be considered in the present CP until the reason for the same, as well as a detailed analysis is done by the Authority (preferably by an independent body) of the proposed rates and the justification thereof.

d. Separate charges for Non Scheduled Operations and General Aviation Operations: - (Refer 6.9 of the CP)
Authority has proposed to elicit the views/comments in regard to separate charges for proposal for Non Scheduled Operations and General Aviation Operations. In this regard we submit that in the back drop of COVID-19 most of the operation in 2020-21 (and continuing in the uncertain future) were in the nature of charters, and special flights with special approvals from DGCA, and were non-scheduled in nature. Hence, in our view, the rates chargeable for Non Scheduled Operations and General Aviation Operations should be no higher than that proposed for the scheduled operations.

e. Exchange currency of applicable tariffs: - (Refer Table 6, 8, 9 etc. of the CP)
It is submitted that the Authority may kindly publish the tariff in its tariff order only in INR. In case the charges are published in USD for international operations, if there is a depreciation of INR currency, the domestic airlines of India will be hit by such devaluation.

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 GBASPL 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)