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October 28, 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. 21/2021-22 dated October 14, 2021 on determination of tariff for Ground Handling Charges in respect of M/s Globeground India Pvt. Ltd. ('GGIPL') at Rajiv Gandhi International Airport, Hyderabad, ('RGIA') for the third control period (FY 2020-21 to FY 2025-26)

Dear Sir,

In response to the Consultation Paper No. 21/2021-22 issued by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of tariff for Ground Handling Charges in respect of M/s Globeground India Pvt. Ltd. ('GGIPL') at Rajiv Gandhi International Airport, Hyderabad ('RGIA') for the Third Control Period (1 April, 2021 to 31 March, 2026) submitted vide AERA Public Notice No. 21/2021-22 dated 14 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

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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. **Tendering Process: - (Refer 1.1 of the CP)**

   Authority should ensure that instead of the Concession agreements being for a period 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, 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 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 same of transparency we would appreciate to know whether GGIPL is subject to audit by suitable auditing authority, or the Auditor and Comptroller General of India, as the case may be.

2. **Deferment of Capital Expenditure**: - (Refer Table 2 and 4.2 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. We are sure that GGIPL 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 non-essential capital expenditure proposed by GGIPL should be put on hold/deferred, unless deemed critical from a safety compliance perspective.

   Further, in case GGIPL 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.

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 and regualtions.

3. Operating Expenditure: - (Refer 5.3 and Table 3 of the CP)

We are unaware as to whether GGIPL 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 submit that:

i. Authority should put on hold any increase in operational expenditure
ii. There should not be any increase in manpower till the existing manpower is effectively utilised. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced.

In view of the above, GGIPL should be directed to pass on cost benefits to the airlines;

Without prejudice to the above, GGIPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

4. Royalty: - (Refer 5.6 of the 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 (24% in the case of GGIPL) which may be included in any of the cost items.

5. Tariff: - (Refer Table 5 and Table 6 of the CP)

a. Hike in tariff for Domestic and International Passengers Flights:
   In our view, no hike should be granted to GGIPL. Without prejudice to the foregoing, the tariff should in any event, in the year 2025-26 the hike should not be more than 2%.

b. Hike in tariff for Domestic and International Freight Flights:

In our view, no hike should be granted to GGIPL. Without prejudice to the foregoing, the tariff should in any event, in the year 2025-26 the hike should not be more than 2%.

6. **Separate charges for Non Scheduled 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. 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 should be no higher than that proposed for the scheduled operations.

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 GGIPL 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)