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December 17, 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. 24/2021-22 dated December 7, 2021 on determination of tariff for Ground Handling Services in respect of M/s GSEC Bird Airport Services Pvt. Ltd. at Sardar Vallabhbhai Patel International Airport, Ahmedabad, for the third control period (FY 2021-22 to FY 2025-26)

Dear Sir,

In response to the Consultation Paper No. 24/2021-22 issued by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of tariff for Ground Handling Services in respect of M/s GSEC Bird Airport Services Pvt. Ltd. ('GBAS') at Sardar Vallabhbhai Patel International Airport, Ahmedabad ('SVPIA') for the Third Control Period (FY 2021-22 to FY 2025-26) ('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.

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 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.

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 adverse financial impact of COVID-19 on airlines.

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 may review the length of award of Concession agreements (which currently appear to be 5 years), 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.

Awarding the contracts to the service provider 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 some of such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear some 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.

Further, for the sake of transparency we would appreciate to know whether GBAS 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 4.2, 4.4 and Table 4 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, we are sure that GBAS can easily cater to its (pre COVID-19) peak level of operations without any new or additional CAPEX investments in the Third Control Period. In the current situation, in order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by GBAS should be put on hold/deferred from the Third Control Period to the Fourth Control Period, unless deemed critical from a safety or security compliance perspective.

Without prejudice to the above, in case GBAS 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. Further, in the event the Authority allows the proposed CAPEX, the capital expenditure proposed to be made in Tariff Year 1 itself (2021-22) may be considered to be spread over a period of two to three years; although since the international operations may not recover by even 2023-24, the requirement for capex of Rs. 337.00 Lakhs for Pushback wide body may kindly be reviewed.

3. Operating Expenditure: -

a. Refer 5.3 and Table 5 of the CP

We are unaware as to whether GBAS 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 almost all 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, GBAS should be directed to pass on cost benefits to the airlines;

Without prejudice to the above, GBAS needs to considerably restructure its payroll utility & outsourcing and R&M expenses and hold any revisions at least for the next three (3) years.

b. Refer 5.6 and Table 5 of the CP:

The Authority has sought to elicit stakeholder's view/comments on the projected R&M expenditure for the third control period.

Sir, 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 5% of the asset value, for the period commencing after the warranty period is over. The Authority is requested to consider the same accordingly.

c. Refer 5.7 and Table 5 of the CP)

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 Authority to abolish such royalty/concession fee which may be included in any of the cost items.

Further, it is not clear under which arrangement the Concession Fee is capped at 30%, which please clarify; we would highly appreciate if the Authority may make look into whether this can be capped at a lower percentage.

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4. Tariff Proposal: -

a. Refer 6.1 and Table 6 & 7 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.

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 GBAS.

b. Refer 6.6 and Table 6,8, 9 of the CP:

With respect to a separate proposal for International Non Scheduled & General Aviation Operations, we submit that a significant volume of the operation in 2020-21 (and also substantial amount in 2021-22 and perhaps continuing in the uncertain future) were in the nature of charters, repatriation flights, and special flights with special approvals from DGCA, and such volume of operation was in the nature of International Non Scheduled Operations. Hence, in our view, the rates chargeable for International Non Scheduled Operations (and percentage increase) should be no higher than that proposed for the scheduled operations; and we further 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. Thus, in our view, no hike should be granted to GBAS.

c. Refer 6.7 of the CP:

It is not clear why GBAS 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. Refer 6.11 of the CP:

The Authority has sought to elicit stakeholder's view/comments on the proposal of GBAS for reduction of 19% to 24% in passenger handling charges and increase of 20% to 23% in Ramp handling Charges in FY 2022-23.

Sir, as most airlines do self-handling of passengers (or through other tie-ups with other competitive service providers), there may not be any significant cost savings for airlines if the passenger handling charges are reduced by GBAS, and at the same time it is likely that there would be no significant loss in revenue for the service provider by such decrease in passenger handling charges; on the other, if there an increase of 20% to 23% is allowed in Ramp handling charges, as most airlines are likely to take such Ramp handling services from GBAS, the airlines may be hit severely by such increase, however at the same time GBAS may likely make a disproportionate profit due to this increase. Hence this unbalanced decrease/increase may kindly be reviewed.

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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 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)