Federation of Indian Airlines
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MOST URGENT

22 March 2022

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

Kind Attention – Shri. Balwinder Singh Bhullar

SUB : FIA response to AERA Consultation Paper No. 33/2021-22 dated February 23, 2022 on determination of tariff for Into Plane Services in respect of Indian Oil Skytanking Delhi Private Limited (IOSDPL) at Indira Gandhi International Airport (IGIA), for the Third Control Period (01.04.2021 – 31.03.2026)

Dear Sir,

We write in response to the Consultation Paper No. 33/2021-22 issued on February 23rd, 2022 by the Airports Economic Regulatory Authority of India (**"AERA"**) in the matter of determination of tariff for Into Plane Services in respect of Indian Oil Skytanking Delhi Private Limited (**"IOSDPL"**) at Indira Gandhi International Airport (**"IGIA"**), for the Third Control Period (01.04.2021 – 31.03.2026) (**"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 and subsequent emerging variants (December 2021 onwards), 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.

While the Consultation Paper proposes a decrease in the Tariff Rate for Into Plane Services, we humbly request AERA to reduce the proposed tariffs further in the Third Control Period, given the adverse financial impact of COVID-19.

Without prejudice to the above, and as desired by AERA, please find attached our recommendations/ comments on the Consultation Paper, under Annex A.

We hope that your good self will positively consider such 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.

We look forward to your continued support in these challenging times

Yours Truly,

For and behalf of the Federation of Indian Airlines,

Ujjwal Dey

UJJWAL DEY
Associate Director

Copy to:
Director (P&S Tariff), Airports Economic Regulatory Authority of India (AERA)

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Annex – A

FIA comments on the AERA CP. No. 33/2021-22 dated 23 February 2022 on determination of tariff for Into Plane Services in respect of Indian Oil Skytanking Delhi Private Limited (IOSDPL) at Indira Gandhi International Airport (IGIA), for the Third Control Period (01.04.2021 – 31.03.2026)

1	**Abolishment of Royalty Charges:** (Refer 1.12 and 9.10 of the CP)	Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception 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. 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. These charges are passed on to the airlines by the airport operator or other services providers. While the rate of Air Operator fees has been capped by AERA @5% of the aeronautical revenue (ITP revenue) vide its Order No. 01/2018-19 dated 5th April 2018, 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 airport operators 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 AERA to abolish such royalty which may be included in any of the cost items.

2	**Capital Expenditure – Second Control Period:** (Refer 2.10 of the CP)	AERA has observed that IOSDPL had submitted a very optimistic business plan for the Second Control Period by projecting high CAPEX, and that the target capitalization had not been achieved resulting in inefficiency and causing undue burden on the end users. In this regard, we recommend that an adjustment of 1% or higher of the project cost from the ARR, as deemed fit, is made by AERA for capital expenditure projects of the Second Control Period that are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Third Control Period.
3	**Capital Expenditure – Third Control Period:** (Refer 4.2, 4.5, 4.18, 4.19 and Table 6, 8 10 & 13 of the CP)	AERA has observed that IOSDPL has a tendency of not executing the approved capital expenditure in the relevant Control Period which is against the interest of the end users. In this context, while the airline industry has been cutting down the capital expenditure to mere bones in the face of current extraordinary situations, we suggest that AERA may consider even more stringent penalties in excess of 1% in the event of any delay or significant reduction in the execution of capital expenditure as finally approved for the Third Control Period such that efficiencies in the system are encouraged and inefficiencies discarded. In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by IOSDPL be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case IOSDPL 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 by the airlines. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, the same should be considered by AERA.

		Further, we request AERA to conduct an independent study for efficient capital expenditure in the Third Control Period in accordance with the AERA Act, 2008. It is to be mentioned that there are calculation & typographical errors in the columns of Table 10, under "Capital Expenditure on Vehicles proposed by AERA for IOSDPL, Delhi for the Third Control Period", requesting AERA to kindly review the same.
4	**Depreciation:** (Refer 5.3, 5.6 and Table 16 of the CP)	While AERA has referred to AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' for depreciation, however, it is not clarified what the depreciation rate of Buildings has been considered as, in Table 16. AERA is requested to clarify the rate of depreciation.
5	**Fair Rate of Return:** (Refer 7.5 of the CP):	Presently, AERA provides a Fair Rate of Return (FRoR) to IOSDPL at 14% towards their Capex requirement. 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 IOSDPL have no incentive to look for productivity improvement or ways of increasing efficiencies, and 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 IOSDPL, 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. Without prejudice to the above, in case AERA is unable to accept the recommendation mentioned above, it is requested to conduct an independent study for determination of FRoR to be provided in favour of IOSDPL.

<table>
<tr><td></td><td></td><td>Such independent study can be exercised by AERA 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 AERA in case of certain major airport operators.</td></tr>
<tr><td>6</td><td>Operating & Maintenance Expenditure: (Refer 4.17, 9.5, 9.9 and Table 24, 27of the CP)</td><td>It is unclear as to whether IOSDPL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It is to be noted that cost incurred by IOSDPL impacts the airlines, as such cost is passed through or borne by the airlines. Further, in view of above, we request AERA should:

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

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

(c) In view of the above, IOSDPL should be directed to pass on cost benefits to the airlines.
(d) In particular, we submit that:

(i) Instead of a significant reduction in cost items of operating expenses, AERA has proposed a Y-O-Y percentage increase of 7% on Payroll and 4.9% on Administration and General Expenses.
Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations, appears to be without any rationale and should be avoided.</td></tr>
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		(ii) Considering that the i-6 system would be newly installed and under warranty, the Repair & Maintenance of the i-6 system should be close to zero. Accordingly, it is observed as per para 4.17 & 9.9 of the CP, that the investment for i-6 system is to be done in the second quarter of FY22-23, in view of the above we would request AERA to kindly hold on to such hefty investments in the Third Control Period or quantify the overall savings that will be generated in the Third Control Period due to its implementation and such savings should be transparently passed on Airlines forthwith. (iii) Utility & Outsourcing Cost: Although the activity level has gone down drastically, rather than significant reduction in the cost, the Utility & Upkeep Cost as proposed by AERA are to increase Y-O-Y each year by 4.9%. Such annual increase should be avoided. Without prejudice to the above, we submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, IOSDPL on the other hand 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 IOSDPL 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 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.

		In addition, it is noted that the while the O&M expenditure has been proposed to increase between 4.9 % to 7% Y-O-Y as per the present Consultation Paper, the O&M expenditure through consultation paper number 32/2021-22 issued by AERA at the same airport (IGIA) for a similar service provider for the same services has been proposed to increase at 3%. In any event, the proposed increase in O&M Expenditure on Y-O-Y in the present Consultation Paper should not be in excess of that proposed vide consultation paper number 32/2021-22. Without prejudice to the above, IOSDPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years to three (3) years.
7	**Aggregate Revenue Requirement:** (Refer 11 & 11.6 of the CP)	As per para 11.6 of the CP, it is observed that AERA has proposed to provide a return on "Security deposit" (paid as per the Concession Agreement) at 5%. In this regard, AERA is requested to provide clarity for the purpose behind provision of such Security deposit. Further, AERA may also note that no return of Security deposit is prescribed under the AERA (Terms & Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2011. Accordingly, it is requested to abolish such return on Security Deposits.
8	**Annual Tariff Proposal:** (Refer 12.5, 12.6 and Table 37 & Annexure – I of the CP)	While AERA has proposed a decrease in the Aircraft Fuelling and Aircraft De-Fuelling charges, however, keeping in view the adverse impact caused to the airline due to the COVID-19 pandemic, we are of the view that there should be a further reduction in the existing charges, considering our submissions & recommendation mentioned above, we can bring the tariff levels down further. AERA may appreciate that it is in the interest of all stakeholders to reduce tariffs in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of the aviation sector.