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Kempegowda INTERNATIONAL AIRPORT BENGALURU

Dated: 18th March 2020

Ref: AERA/Finance/2019-20/11

The Chairman,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi -110 003.

Sub: Bangalore International Airport Limited (BIAL) response to comments made by stakeholders on Consultation Paper (CP) No. 21/2019-20 dated 05.03.2020 in respect of provision of Compensation in lieu of Fuel Throughput Charges (FTC) at Kempegowda International Airport, Bengaluru (KIAB)

Airports Economic Regulatory Authority of India ('AERA/Authority') has released the Consultation Paper No. 21/2019-20 in respect of compensation to Bangalore International Airport Limited (BIAL) on account of discontinuation of Fuel Throughput Charges at Kempegowda International Airport, Bengaluru (KIAB).

AERA has put the said CP for Stakeholder consultation following which stakeholders have submitted their responses to AERA. AERA has shared these responses with BIAL, vide its mail dated 13.03.2020 and 17.03.2020, seeking BIAL's response on the same.

BIAL is grateful to AERA for having given it an opportunity to respond to stakeholders' comments on the CP. BIAL has given its views in the form of a response to specific comments made by each stakeholder. Further, while we acknowledge and appreciate the concerns of the stakeholders, our responses to them are based on the existing policy/regulatory framework in place and the specific context / requirements of the KIAB.

In light of the above, please find enclosed herewith our responses on each stakeholder's comments as listed below for your favorable consideration:

1. Federation of Indian Airlines (FIA)
2. International Air Transport Association (IATA)
3. Airline Operators Committee (AOC)
4. BPCL
5. MIAL
6. APAO

Thanking you,

Yours sincerely,
For Bangalore International Airport Limited,

Bhaskar Anand Rao
Chief Financial Officer

Encl: Responses to Stake Holder Comments

Kempegowda
INTERNATIONAL
AIRPORT
BENGALURU

Response to Stake Holder Comments

Background:

In accordance with the provisions contained in Section 13 of Airports Economic Regulatory Authority of India Act (AERA Act), 2008, AERA has determined the aeronautical tariffs for KIAB, for the 2nd Control Period ie. 01.04.2016 to 31.03.2021, vide Order No. 18/2018-19 dated 31.08.2018.

As detailed in Table 74, under para 19.6.2 of the above said order, AERA has determined the Aggregate Revenue Requirement (ARR) for the 2nd control period. Fuel Throughput Charges (FTC) is the one of the revenue components employed to recover this ARR, along with other charges such as Landing, Parking & Housing, UDF etc.

FTC amounting to Rs. 103.33 crs and 115.32 crs has been approved by AERA for FY 2019-20 and FY 2020-21 respectively.

Airport operators were allowed to collect FTC from concessionaires, who in turn charge the same to Oil Marketing Companies (OMCs). OMCs passed through this FTC to airlines in their ATF bills. Consequent to the introduction of Goods and Services Tax (GST), FTC plus applicable GST was charged by OMCs on the airlines. However, airlines could not get the Input Tax Credit (ITC) on the same.

Based on representation made by Airlines, Ministry of Civil Aviation (MoCA), vide letter No.Av.13030/216/2016-ER (Pt.2) dated 08.01.2020, has decided that the levy of airport operator charge or fuel throughput charge in any manifestation, shall be discontinued at all airports, airstrips and heliports across India with immediate effect.

Further, Para 4 and sub point (ii) of the said letter reads as follows:

"AERA/ Ministry of Civil Aviation, as the case may be, should take into account the amount in this revenue stream and duly compensate the Airport Operator/ AAI by suitably recalibrating other tariffs during their determinations of airport tariffs."

1. Response to comments raised by Federation of Indian Airlines (FIA)

A. "AERA/MOCA not to implement increase of airport charges /tariff of any nature"

FTC was a part of the aeronautical charges determined by AERA, vide its Order No. 18/2018-19 dated 31.08.2018. Due to decision taken by MoCA, FTC has been discontinued and the same will result in revenue shortfall to BIAL. MOCA, in its letter, has also recognized the same and has directed AERA to compensate the Airport operator by suitable recalibrating other tariffs. Thus, no new airport charges are being imposed and it is only reallocation of this revenue shortfall among the other tariff components. In fact, this restructuring is to the benefit of the airlines industry as they can now claim ITC benefit.

B. Difficulties faced by Airlines on account of outbreak of COVID-19

FIA has stated the difficulties faced by the Airlines industry on account of travel advisories and visa restrictions on account of COVID-19 and has asked AERA, not to implement any increase in airport charges.

BIAL wishes to submit that, KIAB is also facing difficulties on account of COVID -19. In comparison to the traffic recorded in the month of Jan 2020, International traffic has fallen by more than 50% and domestic traffic has also reduced by more than 25% in the first fortnight of the current month of March 2020 and we expect this trend to continue in FY21 severely impacting our financial condition.

The traffic at KIAB for FY 2019-20, was already lower than the AERA approved traffic figures, prior to the impact on account of COVID-19. Therefore, BIAL is also impacted in terms of lower revenue realisation, even without considering the COVID -19 impact. The COVID-19 outbreak has impacted the entire Aviation sector.

The impact is not limited to Airlines, even BIAL is a victim in the current situation. Beyond Traffic reduction which directly affects the aeronautical revenues, BIAL also has to contend with steep fall in non-aeronautical revenues as well, while continuing to incur unbudgeted costs towards containment of this Covid-19.

C. Difficulties faced by Airlines on account of high cost structure of Indian Aviation Industry - ATF, airport charges and taxes

It is pertinent to note that international crude prices have reduced by more than 35% for the period 31st Dec 2019 to 6th Mar 2020. This has resulted in the ATF prices coming down for the Airlines. It is also reported that, ATF prices for domestic airlines has come down by 10.3% in Mar 2020 vis a vis rates prevalent in Feb 2020. Airlines ticket prices are not regulated and are market determined. Further, ATF prices& applicable taxes are fixed by the Government of India. Fluctuations in the value of Indian rupee are market related phenomenon.

In so far as Airport charges are considered, AERA has arrived at the Tariff Order for the 2nd Control Period based on the regulatory philosophy and tariff guidelines (including stakeholder consultation). The Tariff Structure approved by the Authority and charged by BIAL is the mechanism to recover the ARR. Discontinuance of FTC will lead to under-recovery of ARR.

BIAL is in midst of significant capacity expansion phase with building of second Runway and Terminal along with associated projects. BIAL has already committed upfront funds towards this huge capital investment in anticipation of the future growth in traffic. The fall in traffic due to COVID-19 is already expected to adversely affect the cashflow situation at BIAL. If the compensation for discontinuation of FTC is not provided, the under-recovery of the ARR for this control period is further expected to aggravate the cashflows for BIAL.

Thus, compensation on account of discontinuation of FTC is critical for BIAL and any delay in this compensation, will have an adverse impact on the ability of BIAL's to have sustainable and efficient airport operations besides delaying the approved capital projects, which are in advanced stages of implementation.

D. FIA has requested AERA that the CP may be placed in abeyance till the aviation sector experiences normalcy.

Airport Operators like BIAL, are regulated entities and the mechanism to recover its ARR is only through the tariff proposed by AERA. In comparison, airlines industry is unregulated and has its own pricing methodology.

Any delay in compensating BIAL for the discontinuation of FTC, will result in serious cash flow shortfall and adversely impact the airport operations. Any additional revenue shortfall vis-a-vis the approved numbers, will affect the credit rating of BIAL.

Thus, the recovery of FTC is crucial to BIAL and cannot be kept in abeyance till there is normalcy restored in the aviation sector which looks uncertain in the given scenario.

E. Whether Airport operators have considered other aeronautical tariff components instead of "Landing charges"

In the AERA Order No.18/2018-19, Tariff recovery from Landing charges is more than 95% of the total Landing, Parking and Housing (LPH) charges. Hence, the practical solution to recover the FTC revenue shortfall for the balance tenure of the 2nd control period, is through revising Landing charges only. It is also administratively easier to implement this. Hence revision to Landing charges has been proposed by BIAL.

BIAL would like to submit that the airport is entitled to collect various aeronautical charges consisting of landing, parking, housing and UDF charges. The Authority determines the ARR for the given control period and provides flexibility to the airport operator to determine the revenue to be collected from the various charges. This has been followed by AERA in the said CP as well.

F. FTC Compensation by way of revision of Non-Aeronautical Revenue (NAR) sources

ARR, as determined by AERA, for the 2nd CP is the Net ARR, after providing for cross-subsidy from NAR. Further, recovery of aeronautical revenue cannot be through NAR sources. BIAL is also impacted on account of the recent economic and COVID-19 related issues, which could result in lower total revenues for the Airport operator. Hence, recourse to NAR revision is not an option to recover the FTC shortfall.

G. FTC to be compensated by UDF / PSF

The genesis of this FTC compensation is based on the representation made by Airlines to MoCA due to the cascading effect of taxes on ATF. This FTC compensation is directly traceable to operating cost for the Airlines. Therefore, it can only be related to airline related charges and not UDF. If the FTC is recovered from the airlines, the GST thereon would be used as Input Tax Credit (ITC) by the airlines and passengers shall get benefit of such ITC, due to reduced cost to the ultimate user in the supply chain.

If the compensation in lieu of FTC gets recovered from passengers as additional UDF, the GST thereon shall not be recoverable. The very purpose of eliminating ineffectiveness in the taxation will also be lost as most of the passengers shall not be able to claim Input Tax Credit (ITC) in this respect.

Effective July 1, 2014, Facilitation component of Passenger Security Fee (PSF(FC)), chargeable by Airport Operator is already subsumed in UDF charges. The current UDF charges that each passenger is paying at BIAL is UDF that has an element of PSF(FC) in it. Hence, BIAL does not have a separate source of PSF(FC) revenue stream and therefore FTC compensation cannot be through PSF (FC)

With effect from July 1,2019, Security component of Passenger Security Fee (PSF-SC) has been replaced with Aviation Security Fee (ASF) and this is being administered by National Aviation Security Fee Trust (NASFT) formed by MoCA. ASF billing will be done by NASFT. Airport operators will only have to provide the passenger data to them on fortnightly basis. Airport operator has no access to funds / any role in maintaining this ASF account. Therefore, ASF also cannot be a source for recovering this FTC compensation.

2. Response to comments raised by IATA

We concur with IATA on the fact that the aviation industry is facing extremely difficult times with the outbreak of the COVID- 19 virus. BIAL, as a stakeholder in this industry, is also severely affected by this.

For airport operators like BIAL, both aeronautical and non-aeronautical revenues have been severely affected due to this COVID 19 outbreak and being a regulated entity, our cash flows are also impacted. This will have a direct impact on operations and the completion of expansion plans, that are in advanced stages of implementation.

Pursuant to Government of India directions in respect to Travel restrictions, there has been substantial reduction in reduction in traffic, leading to reduction in aeronautical revenues for the airport operator.

Further, the reduced footfall at airports has also adversely impacted the non-aeronautical revenues at F&B, Duty free and Retail outlets.

Additionally, ensuring compliance with the government advisories on screening of passenger has required additional manpower deployment at the airport along with increased operational expenses on maintenance of hygiene.

A. "Airport Operators should equally play their role in this by lowering their profit expectations and help provide the much-needed financial relief to airlines through reductions or rebates to airport charges"

BIAL as an integral part of the aviation supply chain is also heavily impacted by the COVID-19 outbreak. BIAL is regulated entity and costs and returns are regulated by AERA for the Control Period. AERA, vide its Order No. 18/2018-19 dated 31.08.2018, has considered all the internal accruals of BIAL towards the funding of capital expenditure requirements. Based on this tariff order, BIAL has tied up loans from Banks. Hence, there is no scope for BIAL to provide any relief to airlines.

B. "IATA urges AERA to defer any increase in airport charges to provision for the requested compensation in lieu of the FTC, for the remaining of the control period. It is improper and unwise to allow for charges increase in the current environment. IATA recommends that the allowable increase is absorbed through passenger charges instead, if not fully, partially so that the cost burden is less on airlines, especially during this difficult period of the industry"

The basis of this FTC compensation has come about based on the representation made by Airlines to MoCA due to the cascading effect of taxes on ATF. Hence, this FTC compensation is directly traceable to operating cost for the Airlines. Therefore, it can be only be compensated through airline related charges and not UDF. If the FTC is recovered from the airlines, the GST thereon would be used as Input Tax Credit (ITC) by the airlines and passengers shall get benefit of such ITC, due to reduced costs.

If this FTC compensation gets recovered from passengers, then the applicable GST thereon shall get lost. The very purpose of eliminating ineffectiveness in the taxation will also be lost as most of the passengers shall not be able to claim Input Tax Credit (ITC) in this respect.

3. **Response to comments raised by AOC**

BIAL is currently implementing a large capital expenditure program which is in excess of Rs 10,000 crs and hence it needs all the support for completing the expansion project. Any cash shortfall on account of changes to approved Annual Revenue Requirement (ARR) will severely impact the operations of the airport and also the implementation of expansion project. Hence, BIAL should be compensated so as to ensure that the expansion project is completed.

4. **Response to comments raised by BPCL** - BPCL has stated that it has no objection with the proposal of AERA and BIAL acknowledges the views of BPCL.

5. **Response to comments raised by MIAL** - MIAL has urged the Authority to consider the time value of the shortfall already suffered by the airport operator and BIAL concurs the views of MIAL that the time value of the shortfall to be also duly compensated.

6. **Response to comments raised by APAO** - APAO has welcomed the prompt action taken by AERA in issuing the CP and has stated that this is a right step taken by AERA in protecting the approved revenues of BIAL, especially considering the fact that BIAL is currently implementing a very large capital expenditure program for creating new runway and terminal facilities. BIAL concurs with the views of APAO.