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May 30, 2022

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

Kind Attention – Shri. Balwinder Singh Bhullar

Subject: **Response to Consultation Paper No. 02/2022-23 dated May 10, 2022 on determination of tariff for Ground Handling Services in respect of M/s Air India SATS Airport Services Private Limited ("AISATS") at Rajiv Gandhi International Airport, Hyderabad, for the Third Control Period (FY 2021-22 to FY 2025-26)**

Dear Sir,

We write in response to the Consultation Paper No. 02/2022-23 issued on May 10, 2022 by the Airports Economic Regulatory Authority of India ("AERA") in the matter of determination of tariff for Ground Handling Services in respect of Air India SATS Airport Services Private Limited ("AISATS") at Rajiv Gandhi International Airport, Hyderabad 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 and subsequent emerging variants (December, 2021 onwards), of COVID-19, have 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 as per CAPA. With limited financial support from the Government, Airlines are constrained to implement severe cost control measures to sustain their operations.

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You will further appreciate that, while the low passenger demand for air travel 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.

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. 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. **Capital Expenditure: -** (Refer 4.1 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. In this situation, in order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by AISATS should be put on hold/deferred to the Fourth Control Period, unless deemed critical from a safety or security compliance perspective.

   Without prejudice to the above, in case AISATS 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.

   In addition, we recommend that an adjustment of 1% or higher, as deemed fit, is made by AERA for capital expenditure projects of the Third 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 Fourth Control Period.

2. **Operating Expenditure: -** (Refer 5.2 & 5.3, and Table 6 of the CP)

   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

   With respect to the O&M expenses approved by AERA, we hereby request AERA to kindly clarify on the below points: -

   a) Depreciation and Amortization (Refer 1.1,1.2,1.3, 5.3, Table 4 & 6 and Form F3 & F9)

      As per the Consultation Paper AISATS was appointed by the Airport Operator for carrying out Ground Handling Services (GHS) at Rajiv Gandhi International Airport (RGIA) for a duration of 10 years, effective from 06th May 2019.

      However, Table 4 and 6 indicates that there was a Capital Expenditure of approx. 200 Lakhs for the first tariff year (FY 2021-22) but also at the same time a Depreciation of Rs. 1,015.19 lakhs is noted, which is unusual. May we request AERA to kindly clarify/confirm whether this Rs. 10,15,18,962 is taken against the assets held individually by M/s Air India Limited and M/s SATS Limited for the previous year, as per Form F3 and F9 attached to the CP. May we request AERA to kindly clarify/confirm on the same, and further that this is in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' for depreciation, as the rates of depreciation have not been mentioned.

b) Payroll, Administrative & General Expenditure, Concession Fees and Repair & Maintenance Cost (Refer 5.3, 5.5, 5.6, 5.7 and 5.8 and Table 6)

AERA may advise AISATS to rationalize/re-negotiate all the cost/expenditure items or heads including 'Payroll Cost', as deemed fit. Further, no escalations should be permitted under these items or heads.

It is unclear as to whether AISATS has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. We submit that AERA may kindly freeze any increase in operational expenditure after the Tariff Year 1, and there should not be any increase in any expense or manpower.

3. **Abolishment of Royalty Charges:** (Refer 5.7 of the CP)

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.

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 mostly passed on to the airlines by the airport operator or other services providers.

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.

Notwithstanding the above, it is unclear what is the percentage of the Gross Revenue that AISATS has to share with the airport operator, as per their Concession Agreement. AERA is requested to please clarify on the same, especially with the background that the revenue share of AAI at major airports of Group A & B is 3% on turnover on domestic scheduled airlines and that at minor airports Group C is 5% on turnover.

4. **Tariff Proposal: - (**Refer 6.1, 6.2 ,6.3 and 6.5 and Table 7, 8 and 9 of the CP):

   The tariff as well as the rate of increase in tariff are very high, especially for the Domestic Passenger Flights that too in the backdrop of COVID-19, highlighted with an increase of 50% to 20% for Code C, D and E aircraft. It is in the interest of all the stakeholders and humbly submitted that no increase may be granted in the Third Control Period.

   Without prejudice to the above, it is requested that the tariff be kept at a minimum level in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector, with increase of not more than 5% in all categories (as proposed by the AERA for recent consultation papers for similar services by AISATS at Thiruvananthapuram [Consultation Paper No. 01 of 2022 – 23] and at Mangaluru [Consultation Paper No. 34 of 2021-22]). Considering our submissions & recommendation mentioned above, we request that an appropriate reduction may kindly be applied to the proposed charges.

We hope that your good self will positively consider the above recommendations/ comments as it will help in achieving the affordability and sustainability of the aviation sector including airlines, 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.

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)