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August 18, 2023

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

Kind Attention – Shri. Balwinder Singh Bhullar Ji

**Subject: Response to the AERA Consultation Paper No. 07/2023-24 dated July 28, 2023 on determination of tariff for Ground Handling Services for M/s GSEC Indo Thai Ground Handling Private Limited (GSEC Indo Thai), at Jaipur International Airport, for the First Control Period (FY 2022-23 to FY 2026-27)**

Dear Sir,

We write in response to the Consultation Paper No. 07/2023-24 issued on July 28, 2023 by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of tariff for Ground Handling Services for M/s GSEC Indo Thai Ground Handling Private Limited (GSEC Indo Thai) at Jaipur International Airport, Jaipur, for the First Control Period (FY 2022-23 to FY 2026-27) ("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.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been adversely impacted due to significant headwinds, including but not limited to, hostile financial environment of the economy, instability due to geo-political reasons, fallout of devastating COVID-19 pandemic, significant global supply chain issues, increase in the price of Aviation Turbine Fuel (ATF), limited financial support from the government, limited capacity of customer to pay and fluctuation in foreign exchange etc.

It may be noted that the major Indian Airlines incurred a loss of approximately Rs.11,658 Crores in FY 2021-22 ( Ref: MoCA response to the Lok Sabha unstarred Q.No. 201) and as per the DGCA, all scheduled Indian carriers made a loss of Rs. 14,871 Crores in FY 2020-21. According to the Investment Information and Credit rating Agency of India

(ICRA) the industry is estimated to report a net loss of Rs. 110-130 Billion (approx. USD 1.4-1.6 Billion) in FY 2023  
(<https://www.icraresearch.in/research/viewResearchReport/5157>).

Industry reports also indicate that the traffic recovery (number of flights and passengers) would take around another year or so for airline's international flight operations to reach pre COVID-19 levels, if no other negative event occurs. On the other hand, the same reports mentions that Indian Airports are expected to report significant profits in the region of USD 420 million for the FY23. Customers of airlines have limited capacity to pay for the Air Fares, and when the cost of travel goes up (caused in part due to high service provider charges), the air traffic goes down, leading to further losses and financial crisis for airlines, which may be feared due to recession

In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines.

We also humbly request AERA to not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

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.

Without prejudice to the above, and as desired by AERA, please find below our recommendations/ comments on the Consultation Paper:

#### **1. Review of Tendering Process**

License Agreements (1.2 of the CP):

Authority may kindly note that "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users." The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner."

Sir, as this is particularly a period of economic difficulty for airlines, AERA is humbly requested to ensure that Airport Operator does not take the decision to award concession agreements solely on the revenue share being offered. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost, as envisioned in the abovementioned guiding principle.

## **2. Aircraft Traffic**

(3.1 & 3.2 of the CP):

It is submitted that while predicting Aircraft Traffic, it may be noted that recent post COVID -19 trends may not show similar trends in the future after normalization of operations, and thus should not be linearly extrapolated for projecting future volumes.

Thus, is submitted that at this point in time, it may not be realistic to assess the Aircraft Traffic and therefore it is requested that Authority may rationalize and true up the actual volumes during the 2nd Control Period, when a clearer picture emerges, especially since GSEC Indo Thai is a new entrant with no track record at this station.

In addition, as this airport has the potential for high traffic volumes due to its strategic location and popular vacation destination from all over the world, we request AERA to conduct an independent expert study for Aircraft Traffic projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act).

## **3. Deferral of Capital Expenditure**

Stoppage of non-safety/security related capital expenditure (Refer 4.1, 4.2 & 4.4 and Table 5 & 6 of the CP):

Taking into account the actual traffic handled by lead member of SPV GSEC Indo Thai on its commencement year (2022-23) of operation at this airport, the projected increase by GSEC Indo Thai for FY 2023-24 is 313 % which is quite high. We request AERA to carry out an independent study on it. and the actual traffic It is likely that it would take some time for the airport and GSEC Indo Thai reach higher traffic levels, and thus it is unlikely that all the capex equipment as proposed would be required, unless as a replacement for damaged/worn-out equipment, which in itself is unlikely to happen in the First Control Period itself. In order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by GSEC Indo Thai should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.

Without prejudice to the above, in case GSEC Indo Thai 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 First Control Period to the Second Control Period, same should be considered by AERA.

**4. Abolishment of Royalty Charges/ Concession Fee**  
(5.2, 5.5(C) and Table 7 and 8 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 that service providers have no incentive to reduce their expenses, as most of any such increase would be passed on to the airlines/stakeholders through the tariff determination mechanism process and indirectly airlines would 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 take measures to abolish such royalty which may be included in any of the cost items.

**5. Operating Expenditure – Drastic Cost Cutting**

Operating & Maintenance Expenditure (Refer 5.2, 5.3, 5.5 and Table 7 & 8 of CP)

It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. It may also be noted that cost incurred by GSEC Indo Thai impacts the airlines, as such cost is passed through or borne mostly by the airlines. In order to ensure that there is no adverse impact/increase in the tariff, we request AERA to kindly put on hold any increase in operational expenditure by GSEC Indo Thai not related to safety or security. Further, we submit that:

- (i) **Payroll Costs:** The proposed Y-o-Y increase in the Payroll Cost appear to be exorbitant. It is requested that the same may please not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers.
- (ii) **Repair and Maintenance Costs:** The proposed Y-o-Y increase in the Repairs and Maintenance Cost also appear to be exorbitant. The Y-o-Y increase may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers, as the maintenance cost in the First Control period would also be significantly lower as compared to the second and third control periods due to consideration of warranty on the new equipment during the First Control period.

- (iii) Utility & Outsourcing Costs: The proposed Y-o-Y increase in the Utility & Outsourcing Costs also appear to be exorbitant, and it is requested that the same may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.

## 6. Tariff:

### (i) Annexure III of the CP

It is noted that the proposed tariffs are exorbitantly high, the comparative tariffs of a few items are exhibited below as illustrations. It is also noted that in several places in the Annexure, the Units are either erroneous (as in the case of Blue and White collared staff – the Unit rates are mentioned as hourly rates, instead of the Unit being an 8 hour rate) or not specific. Please note that these are as examples only for one year (2023-24), while there may be several cases across the various years and category of Units/items. Authority is requested to kindly conduct a thorough review of the proposed Units and Tariffs before arriving at a decision, please.

All figs in Rs.

Tariff for the Year 2023-24 (Dom. & Intl. Scheduled Flights)						
S.N	Services	Station	Service Provider	Unit	Dom	Intl.
1	Blue Collar Staff	JAI**	GSEC Indo Thai	Per staff per hour	800	400
	Blue Collar Staff	GOI	BASPL	Per staff per 8 hour	1,998	3,157
	Blue Collar Staff	AMD	GSEC	Per staff per 8 hour	1,960	3,069
	Blue Collar Staff	AMD*	CGHIPL	Per staff per hour	1,867	2,920
2	White Collar Staff	JAI**	GSEC Indo Thai	Per staff per hour	1,200	600
	White Collar Staff	GOI	BASPL	Per staff per 8 hours	2,996	4,736
	White Collar Staff	AMD	GSEC	Per staff per 8 hours	2,940	4,641
	White Collar Staff	AMD*	CGHIPL	Per staff per hour	2,800	4,417

AMD\*: Rates as per the Ad hoc Order No. 36/22-23, extended till 30.09.2023. Order awaited for CP 14/2022-23.

JAI\*\*: Rates mentioned in the Annexure III for Blue and White Collar staff are per hour, which is assumed to be erroneous and are displayed as to be per 8 Hours in above table.

It may be particularly noted that while it is mentioned that the rates in Annexure III are the maximum rates that may be charged, it is not been explained or reasoned by the Authority why the maximum rates should be allowed to be higher than other comparable airports.

(ii) Refer 6.1,,6.2, 6.3,6.4,6.5,6.8, 6.11, 6.12, 6.13, 6.14 and Table 7,8 & 9 of the CP

We humbly request AERA to kindly consider our submission as mentioned above, and review the proposed tariffs in light of the same, as the proposed rates of tariff are very high in the back drop of COVID-19, looming recessionary fears as well as recent collapse of an airline which may be in part due to high tariffs.

It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 recovery of aviation sector. Customers of airlines have limited capacity to pay for the Air Fares, and when the cost of travel goes up (caused in part due to high service provider charges), the air traffic goes down, leading to further losses and financial crisis for airlines.


In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines. In this regard, we also humbly request AERA to not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

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**

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