



SpiceJet Limited
319 Udyog Vihar, Phase-IV,
Gurugram 122016, Haryana, India.
Tel: + 91 124 3913939
Fax: + 91 124 3913844

October 23, 2023

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

Kind Attention – Shri. Balwinder Singh Bhullar Ji

Subject: Response to Airports Economic Regulatory Authority of India (the 'Authority') Consultation Paper No. 13/2023-24 dated 06 October, 2023 on determination of tariff for Ground Handling Services to be provided by M/s Celebi Ground Services Chennai Private Limited (CGSCPL), at Chennai International Airport Chennai, for the First Control Period (FY 2022-23 to FY 2026-27) (the 'Consultation Paper').

Dear Sir,

We write in response to the Subject Consultation Paper and express our sincere gratitude to the Authority for inviting stakeholder comments on the Consultation Paper. It may be appreciated that airlines are facing significant financial challenges due to various factors, including rising fuel costs and deteriorating geopolitical situations in Europe and Middle East, and limited government support. The proposed ground handling tariffs would further burden airlines and could lead to reduced air traffic and financial crisis of airlines. Thus, we request the Authority to not implement the same and also not to implement any year-over-year (Y-O-Y) increase in tariffs.

Without prejudice to the above, and as desired by the Authority, please find below our recommendations/ comments on the Consultation Paper in order to achieve affordability and sustainability for airlines, as outlined in the National Civil Aviation Policy, 2016:

1. Review of Tendering Process (Refer 1.2 of the Consultation Paper):

The International Civil Aviation Organization's (ICAO) guiding principles on charges for Airports and Air Navigation Services (ICAO DoC 9082) emphasize balancing the interests of airports and aircraft operators, especially during periods of economic difficulty. Airlines are currently facing economic hardship, and the Authority is requested to ensure that Airport Operators do not base concession agreements solely on the revenue share offered, as this breeds inefficiencies and could disproportionately increase costs for airlines.

In addition, the Authority is requested to review and ensure that due process for all Related Party Transactions in connection with award of concession to M/s. Celebi

Airport Services India Private Limited (CASIPL) / M/s Celebi Ground Services Chennai Private Limited (CGSCPL) for ground handling services has been followed and approved as per appropriate governance practices.

2. Aircraft Traffic (Refer 3.1 & 3.2 of the Consultation Paper):

Taking into account the projected traffic to be handled by CGSCPL in FY 2024-25 (7767 flights) over FY 2023-24 (3566 flights annualized), the projected increase of 118 % appears to be quite high. Authority may please also note that extrapolating recent traffic trends due to the recovery from COVID-19 and other factors may not accurately predict future aircraft traffic volumes.

Accordingly, due to the airport's potential for high traffic, an independent expert study for Aircraft Traffic projections is requested, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act) as it is likely that it would take some time for the airport and CGSCPL to reach higher traffic levels.

3. Deferment of Capital Expenditure (Refer 4.2 of the Consultation Paper):

The projected traffic increase of 118 % to be handled by CGSCPL in FY 2024-25 (7767 flights) over FY 2023-24 (being 3566 flights annualized) appears to be quite high. It is unlikely that all the Capex equipment as proposed would be required. In order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by CGSCPL should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.

It is worth noting that consultation paper no. 14/2023-24, dated October 6, 2023, also addresses the determination of tariffs for ground handling services at Chennai, to be provided by M/s Bird Airport Services. As a new entrant, M/s Bird Airport Services has projected a capital expenditure of only Rs. 58.90 crores while expecting a market share of around 14% for FY 2023-24. In contrast, CGSCPL, which will also be providing similar services in Chennai for the first time, has projected a capex of more than Rs. 83 crores while expecting a market share of only around 5% for FY 2023-24. This apparent discrepancy between capex spending and expected market share for CGSCPL as compared to M/s Bird Airport Services warrants a review of CGSCPL's capex projections by the Authority.

4. Abolishment of Royalty Charges/ Concession Fee (Refer 5.2, 5.3, 5.5(C) and Table 6 & 7 of the Consultation Paper):

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

12

operator under various headings without any underlying services. These charges are mostly passed on to the airlines by the 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 the Authority to take measures to abolish such royalty which may be included in any of the cost items.

5. Operating Expenditure – Drastic Cost Cutting (Refer 5.3, 5.5 and Table 6 & 7 of the Consultation Paper):

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 CGSCPL 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 the Authority to kindly put on hold any increase in operational expenditure by CGSCPL not related to safety or security.

6. Tariff:

(i) Annexure III of the Consultation Paper

It is noted that the proposed tariffs are exorbitantly high for International flights as compared to the recent consultation paper of GSEC Indo-Thai for Jaipur and GAU, the comparative tariffs of a few items are exhibited below as illustrations. Please note that these are examples only for one year (2023-24), while there may be several cases across the various years and categories. 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.

S.N	Services	Station	Service Provider	Unit	International
1	Air Conditioning Unit	MAA	CGSCPL	Per Hour	24,265
2	Air Conditioning Unit (NB)	GAU	GSEC Indo Thai	Per Hour	15,000
3	Air Conditioning Unit (NB)	JAI	GSEC Indo Thai	Per Hour	11,100
4	Air Starter Unit	MAA	CGSCPL	Start	15,089
5	Air Starter Unit (NB)	GAU	GSEC Indo Thai	Per Hour	15,000
6	Air Starter Unit (NB)	JAI	GSEC Indo Thai	Per Hour	7,500
7	Blue Collar Staff	MAA	CGSCPL	Per staff per hour	2262
8	Blue Collar Staff	GAU	GSEC Indo Thai	Per staff per hour	800

9	Blue Collar Staff	JAI	GSEC Indo Thai	Per staff per hour	400
10	White Collar Staff	MAA	CGSCPL	Per staff per hour	3221
11	White Collar Staff	GAU	GSEC Indo Thai	Per staff per hour	1,200
12	White Collar Staff	JAI	GSEC Indo Thai	Per staff per hour	600

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 6.2, 6.3, 6.11 and Table 9, 10 & 11 of the Consultation Paper:

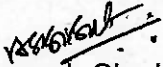
We humbly submit that the proposed tariffs are excessively high considering post-COVID-19 economic climate, current geopolitical situation and other factors leading to recent airline collapse. It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle 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.

Thus, it is humbly submitted that it is imperative that the Authority does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period. We also humbly request the Authority 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 thank you for your continued support in advance.

Yours Truly,
For SpiceJet Limited


Suryavir Singh Bisht
Sr. General Manager – Regulatory Affairs
SpiceJet Ltd [319 | Udyog Vihar | Phase IV | Gurgaon - 122016] India
Phone: +91 124-3913939 Extn: 71774 Mobile: +91-9650037598
W: www.spicejet.com F: facebook.com/flyspicejet T: @flyspicejet

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