

KERALA STATE INDUSTRIAL ENTERPRISES LTD.

(A Government of Kerala Undertaking)

St. Joseph's Press Buildings, Cotton Hill, Thiruvananthapuram-695 014, Kerala, India
Phone: 0471 2326913, 2326947, 2324159, 2321157, Fax: 0471 2334590, E-Mail: ksieltd@gmail.com, info@ksie.net

No.ACC/60(5)/822

15.11.2023

The Secretary

Airport Economic Authority of India
Government of India
AERA Building, Administrative Complex
Safdurjung Airport , New Delhi-110003.

Sir,

Sub: Submission of counter comments against the comments of FIA- reg

Ref: 1) Your office mail dated 13th November 2023.

2) Consultation Paper issued by AERA on 18.10.2023

We are in receipt of the comments from **Federation of Freight Forwarders Association in India, M/s Spice Jet Limited, M/s Federation of Indian Airlines** submitted to you, on the consultation paper issued by AERA on 18th October 2023 notifying the proposed tariffs for Airport Cargo services at Trivandrum Airport for the control period 2022-2026.

a) **Counter Comments to the comments of Federation of Freight Forwarders Association in India**

In this connection we wish to submit our counter comments as follows.

1. We are unable to comment on the jurisdictional validity of AERA over tariff fixation.
2. KSIE in the application for the MYTP have submitted along with other documents the minutes of the meetings held with the stake holders, as could be seen from the Consultation Paper document page 7&8 , under item No.1.8(c).

1.8 As per the provisions of the Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft (CGF) Guidelines, 2011, M/s KSIEL, vide its letter dated 20.03.2023 submitted the Multi-Year Tariff Proposal (MYTP) to the Authority, for the Determination of the Tariff for the period from FY 2021-22 to FY 2025-26, along with the following documents:

a) *Annual Tariff Proposal (ATP) Forms as per AERA guidelines.*

b) *Memorandum of Understanding (MoU) between Kerala State Industrial Enterprises Limited (KSIEL) & TRV (Kerala) International Airport Limited (TIAL).*

c) *Minutes of the Meeting with Stakeholders.*

3. AERA has given full details regarding the projected cargo handling at Trivandrum International Airport by KSIE for the projected control period. Full data and underlying assumptions for a moderate to medium slow ramp up of the volumes are quite justifiable. KSIE is a Government backed organization and the improvement in the business volume of exports and imports is a

mandate for the State Government and the recent takeover of Trivandrum by the ADANI group and their presence at the Vizhinjom International Seaport could very easily substantiate the modest cargo volume projections.

4. The tariff revision has been proposed after a period of FIVE years, wherein during that period KSIE was absorbing the annual increase in wages, operational costs etc. This was done in order to support the industry during the COVID and ensuing period. The cumulative impact of the short fall in revenue as well as increase in expenditure is to be recovered over a period from future operations. During 2023-24, where a 20% is proposed the effective realization will be only for a limited period (December 23 to March 24). This increase is after a period of five years, which is therefore in effect not even 4.5 % per annum if worked out on a cumulative basis. The proposed tariff increase thereafter is only in the range of 14% and 10% respectively which is reasonable when compared to the normal cost of inflation.

In this connection you may note the observation of AERA in the consultation paper which reads as follows:

As per the ARR calculations, the Authority computed 38.31% one-time Tariff increase for the ISP over the prevailing Tariff rates. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposes to consider staggered tariff increase from FY 2023-24 (effective from 1st December, 2023) to FY 2025-26 for the Third Control Period.

Hence, you could observe that as against an eligible increase of 38%, AERA is proposing on an average of 14.66% spread over three years, exposing KSIE to face the uncontrollable price increase and inflation.

5. The broad percentage of increase in tariffs proposed for the control period will yield a Fair rate of return of only 11.1%, which when compared to other Cargo Handling agencies at other Airports and according to the Industry standards is low as shown in the Table below, wherein the FroR approved by AERA is all above that of 11.1%..

MENZIES AVIATION (BENGALURU) PRIVATE LIMITED (MABPL)	12.01
GMR HYDERABAD AIR CARGO (GHAC) AT RAJIV GANDHI INTERNATIONAL AIRPORT, HYDERABAD	12.08
M/s CELEBI DELHI CARGO TERMINAL MANAGEMENT INDIA PVT. LTD. (CDCTMIPL) AT INDIRA GANDHI INTERNATIONAL AIRPORT, DELHI	13.47

6. The main factors contributing to the proposed increase are the additional Capital expenses and the increase in security cost, manpower to meet the new services and better services to the clients. The comments of AERA in the consultation paper are reproduced below for further clarity.

From the above analysis, it is observed that the major impact of RA Facility status is on the payroll expenses of the ISP, which are projected to increase around 119% in FY 2023-24 as compared to FY 2022-23. It is pertinent to mention that subsequent to getting RA Facility status, there is projected increase in the manpower count by 68 numbers from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which include 18 nos. of X-Ray screeners (as per security norms) & 50 other workers, which is the main reason for the projected steep increase in payroll expenses during the FY 2023-24.

Considering the impact of proposed increase in manpower numbers (by 158%) in FY 2023-24 and taking into account the impact of annual salary increments, increase in minimum wages, increase in statutory components like EPF etc., the 119% increase considered by the ISP in Payroll Costs (after getting the RA Facility status) is reasonable.

7. Regarding the various individual items of tariffs:

Authority may please note that since AFS is relatively a new concept in the Indian Civil Aviation, we have proposed the BUP charges for Export and Import Cargo at 33% reduction to the normal Export Import Cargo services. This is relatively a competitive offer from the part of KSIE taking into account all the related services utilizing the manpower, equipments, warehouse space keeping the norms of BCAS/Customs. Hence the proposal submitted by FFFAI for reducing the tariff for BUP charges cannot be agreed to.

As mentioned earlier, the tariff revision has been proposed after a period of FIVE years, wherein during that period KSIE was absorbing the annual increase in wages, operational costs etc. This was done in order to support the industry during the COVID and ensuing period. The cumulative impact of the short fall in revenue as well as increase in expenditure is to be recovered over a period from future operations. During 2023-24, where a 20% is proposed the effective realization will be only for a limited period (December 23 to March 24). This increase is after a period of five years, which is therefore in effect not even 4.5 % per annum if worked out on a cumulative basis. The proposed tariff increase thereafter is only in the range of 14% and 10% respectively which is reasonable when compared to the normal cost of inflation.

In the case of valuable cargo, the existing tariff was Rs.6.00 per Kg subject to a minimum of Rs.1000 per AWB. The same is proposed to be revised to Rs.7.50 per Kg and Rs.1280 per AWB. However, the Authority after making necessary assessment, the same got reduced to Rs.7.20 per Kg and Rs.1200 per AWB. This is also reasonable when compared to the nearby Airport.

No separate tariff is proposed for Import Perishable cargo but it is treated under Commercial cargo and the tariff is applicable as such.

We request that our above submissions may be considered while the comments of FFAI etc are taken into account by AERA.

b) Counter Comments to the comments of M/s Spice Jet Limited

We are in receipt of the comments from M/s Spice Jet Limited, vide their letter of 9th November 2023 submitted to you, on the consultation paper issued by AERA on 18th October 2023 notifying the proposed tariffs for Airport Cargo services at Trivandrum Airport for the control period 2022-2026.

In this connection we wish to submit our counter comments as follows.

1. The tariff revision has been proposed after a period of FIVE years, wherein during that period KSIE was absorbing the annual increase in wages, operational costs etc. This was done in order to support the industry during the COVID and ensuing period. The cumulative impact of the short fall in revenue as well as increase in expenditure is to be recovered over a period from future operations. During 2023-24, where a 20% is proposed the effective realization will be only for a limited period (December 23 to March 24). This increase is after a period of five years, which is therefore in effect not even 4.5 % per annum if worked out on a cumulative basis. The proposed tariff increase thereafter is only in the range of 14% and 10% respectively which is reasonable when compared to the normal cost of inflation .

In this connection you may note the observation of AERA in the consultation paper which reads as follows:

As per the ARR calculations, the Authority computed 38.31% one-time Tariff increase for the ISP over the prevailing Tariff rates. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposes to consider staggered tariff increase from FY 2023-24 (effective from 1st December, 2023) to FY 2025-26 for the Third Control Period.

Hence, you could observe that as against an eligible increase of 38%, AERA is proposing on an average of 14.66% spread over three years , exposing KSIE to face the uncontrollable price increase and inflation.

Your contention of 150.48% is erroneous and opposed to facts. In fact if you consider the effective aggregate rate from the control period 2024-25 (For the period 2023-24, the effect is only from December 23) , the rates for 2025-26 will show only an increase of 25.4%.

2. The broad percentage of increase in tariffs proposed for the control period will yield a Fair rate of return of only 11.1%, which when compared to other Cargo Handling agencies at other Airports and according to the Industry standards is low as shown in the Table below, wherein the FroR approved by AERA is all above that of 11.1%..

MENZIESAVIATION (BENGALURU) PRIVATE LIMITED (MABPL)	12.01
GMR HYDERABAD AIR CARGO (GHAC) AT RAJIV GANDHI INTERNATIONAL AIRPORT, HYDERABAD	12.08
M/s CELEBI DELHI CARGO TERMINAL MANAGEMENT INDIA PVT. LTD. (CDCTMIPL) AT INDIRAGANDHI INTERNATIONAL AIRPORT, DELHI	13.47

3. The main factors contributing to the proposed increase are the additional Capital expenses and the increase in security cost, manpower to meet the new services and better services to the clients. The comments of AERA in the consultation paper are reproduced below for further clarity.

From the above analysis, it is observed that the major impact of RA Facility status is on the payroll expenses of the ISP, which are projected to increase around 119% in FY 2023-24 as compared to FY 2022-23. It is pertinent to mention that subsequent to getting RA Facility status, there is projected increase in the manpower count by 68 numbers from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which include 18 nos. of X-Ray screeners (as per security norms) & 50 other workers, which is the main reason for the projected steep increase in payroll expenses during the FY 2023-24.

Considering the impact of proposed increase in manpower numbers (by 158%) in FY 2023-24 and taking into account the impact of annual salary increments, increase in minimum wages, increase in statutory components like EPF etc., the 119% increase considered by the ISP in Payroll Costs (after getting the RA Facility status) is reasonable.

The observation regarding market trends etc are equally applicable to KSIE also and without a tariff hike KSIE cannot survive .

We therefore request that our above submissions may be considered while the comments of FIA etc are taken into account by AERA.

c) Counter Comments to the comments of M/s Federation of Indian Airlines

We are in receipt of the comments from Federation of Indian Airlines vide their letter of 9th November 2023 submitted to you, on the consultation paper issued by AERA on 18th October 2023 notifying the proposed tariffs for Airport Cargo services at Trivandrum Airport for the control period 2022-2026.

In this connection we wish to submit our counter comments as follows.

1. The tariff revision has been proposed after a period of FIVE years , wherein during that period KSIE was absorbing the annual increase in wages, operational costs etc. This was done in order to support the industry during the COVID and ensuing period. The cumulative impact of the short fall in revenue as well as increase in expenditure is to be recovered over a period from future operations. During 2023-24, where a 20% is proposed the effective realization will be only for a limited period (December 23 to March 24). This increase is after a period of five years, which is therefore in effect not even 4.5 % per annum if worked out on a cumulative basis. The proposed tariff increase thereafter is only in the range of 14% and 10% respectively which is reasonable when compared to the normal cost of inflation .

In this connection you may note the observation of AERA in the consultation paper which reads as follows:

As per the ARR calculations, the Authority computed 38.31% one-time Tariff increase for the ISP over the prevailing Tariff rates. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposes to consider staggered tariff increase from FY 2023-24 (effective from 1st December, 2023) to FY 2025-26 for the Third Control Period.

Hence , you could observe that as against an eligible increase of 38%, AERA is proposing on an average of 14.66% spread over three years , exposing KSIE to face the uncontrollable price increase and inflation.

2.The broad percentage of increase in tariffs proposed for the control period will yield a Fair rate of return of only 11.1%, which when compared to other Cargo Handling agencies at other Airports and according to the Industry standards is low as shown in the Table below, wherein the FroR approved by AERA is all above that of 11.1%..

MENZIES AVIATION (BENGALURU) PRIVATE LIMITED (MABPL)	12.01
GMR HYDERABAD AIR CARGO (GHAC) AT RAJIV GANDHI INTERNATIONAL AIRPORT, HYDERABAD	12.08
M/s CELEBI DELHI CARGO TERMINAL MANAGEMENT INDIA PVT. LTD. (CDCTMIPL) AT INDIRA GANDHI INTERNATIONAL AIRPORT, DELHI	13.47

3.The main factors contributing to the proposed increase are the additional Capital expenses and the increase in security cost, manpower to meet the new services and better services to the clients. The comments of AERA in the consultation paper is reproduced below for further clarity.

From the above analysis, it is observed that the major impact of RA Facility status is on the payroll expenses of the ISP, which are projected to increase around 119% in FY 2023-24 as compared to FY 2022-23. It is pertinent to mention that subsequent to getting RA Facility status, there is projected increase in the manpower count by 68 numbers from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which include 18 nos. of X-Ray screeners (as per security norms) & 50 other workers, which is the main reason for the projected steep increase in payroll expenses during the FY 2023-24.

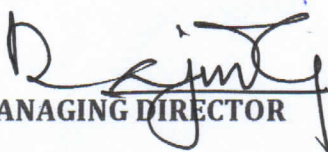
Considering the impact of proposed increase in manpower numbers (by 158%) in FY 2023-24 and taking into account the impact of annual salary increments, increase in minimum wages, increase in statutory components like EPF etc., the 119% increase considered by the ISP in Payroll Costs (after getting the RA Facility status) is reasonable.

We request that our above submissions may be considered while the comments of FIA etc are taken into account by AERA.

Thanking you,

Yours faithfully,

For **KERALA STATE INDUSTRIAL ENTERPRISES LIMITED**


MANAGING DIRECTOR