FEDERATION OF INDIAN AIRLINES

Federation of Indian Airlines
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Kalkaji,
New Delhi - 110019.
Website: www.fiaindia.in

MOST URGENT

08 November 2021

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

Kind Attention – Shri. B.S. Bhullar

Sub: FIA comments/response on Consultation Paper No. 17/2021-22 dated 07 Oct 2021, on Determination of Aeronautical Tariff for Calicut International Airport, Calicut, for the Third Control Period (01.04.2021 – 31.03.2026)

Dear Sir,

We, Federation of Indian Airlines (**FIA**) on behalf of our member IndiGo, Spice Jet, Go First, write in response to the AERA Consultation Paper No. 17/2021-22 dated October 7, 2021 issued by the Airports Economic Regulatory Authority of India ('**AERA**' or '**Authority**') in the matter of determination of aeronautical tariffs in respect of Calicut International Airport, Calicut ('**CCJ'** or **'Calicut Airport**') for the Third Control Period (1 April, 2021 to 31 March, 2026) ('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.

The Consultation Paper proposes an increase/hike in the aeronautical tariffs as more particularly mentioned under **Annex – A** hereto. In the given circumstances, it is imperative that AERA does not take any steps, including by way of increase in aeronautical tariff, during the Third Control Period, which precipitates any further adverse financial impact on the airlines.

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.

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While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 has again impacted the operations and resultantly prolonged the process of financial recovery. While we appreciate that the Government Restrictions are being gradually relaxed, until the demand for air travel/load is fully restored as seen pre-COVID-19, airlines will continue to face significant challenges in improving the cash flows.

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 USD 8.0 billion for the FY 2020-21 and 2021-22. With limited financial support from the Government, Airlines are constrained to implement severe cost control measures to sustain its operations

Without prejudice to the above, and as desired by AERA, please find attached our recommendations/ comments on the Consultation Paper, under **Annex – B**.

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.

We look forward to your continued support in these challenging times.

Thanking you in advance.

Yours Truly,

For the Federation of Indian Airlines,

UJJWAL DEY
Associated Director

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

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Annex – A

Increase in Aeronautical Tariff

Particulars	Proposed by AERA				
	2022-23	2023-24	2024-25	2025-26 (till 31 Dec 2025)	2025-26 (w.e.f 01 Jan 2026 to 31 Mar 2026)
Landing Charges (DOM & INT)					
Variance % from existing	45%	74%	100%	110%	68%
Variance % year on year	**45%**	**20%**	**15%**	**5%**	**-20%**
Parking Charges (DOM & INT)					
Variance % from existing	45%	74%	100%	110%	68%
Variance % year on year	**45%**	**20%**	**15%**	**5%**	**-20%**
UDF Charges (In Rupees)					
UDF - Domestic	440.00	440.00	440.00	440.00	375.00
Variance % from existing	107%	107%	107%	107%	76%
Variance % year on year	52%	0%	0%	0%	-15%
UDF – International	740	740	740	740	580.00
Variance % from existing	55%	55%	55%	55%	22%
Variance % year on year	**55%**	**0%**	**0%**	**0%**	**-22%**

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Annex – B

Comments on Consultation Paper and Tariff Card

1	**Revenue from Air Navigation Services and Cargo services:** (Refer 3.3.1, 3.3.2 and 3.3.3 of the CP)	It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (**AERA Act**), under sub-section (a), "aeronautical services means any services provided- (i)For navigation, surveillance and supportive communication thereto for air traffic management….. (v) for the cargo facility at an airport.." It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services, Cargo services (100% revenue accruing to AAICLAS) should form part of aeronautical revenues and accordingly AERA should take into account of the corresponding revenue and revise the tariff card.
2	**True up of Capital Expenditure and Depreciation – Second Control Period:** (Refer Table 6, S. No. 7 through 22 of the CP)	We note that Calicut/CCJ Airport has exceeded the approved capex for the Second Control Period by approx. 50%, which is a very large variation. Although it is mentioned by AERA that most of the expenses were incurred for purposes of security and passenger facilitation, and while AERA has approved almost all the unplanned capital expenditure, the Consultation Paper fails to provide the reasons/justifications as to why such capital expenditure was not anticipated by CCJ Airport at the time of finalisation of the capex proposal for the Second Control Period for Calicut Airport. AERA is requested to discourage such unplanned capex proposals and untimely deviations other than those which may be related to unanticipated safety and security requirements, which resultantly impacts tariff of a subsequent control period in an adverse manner.
3	**Traffic Forecast for Third Control Period:** (Refer 5.4.5 of the CP)	While we appreciate that AERA has drawn references to traffic outlook by ACI, IATA, CAPA India and ICAO, we request AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.

4	**Deferment of Capital Expenditure - Regulatory Asset Base:-** (Refer 6 and Table 30 of the CP)	In this regard, AERA and Calicut Airport must ensure that all non-essential capital expenditure should be put on hold or deferred, and only such capital expenditure deemed critical from a safety or security compliance perspective may be undertaken by Calicut Airport. Further, in case Calicut Airport 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 by the airlines. Further, FIA requested AERA to conduct independent study on allocation of assets and ensure that any capex approved by the AERA is within the prescribed normative norms by AERA.
5	**Fair Rate of Return (FRoR):** (Refer 7.2.3 and Table 35 of the CP)	At present the Fair Rate of Return (FRoR) being considered by the AERA is 14 % towards Calicut Airport's investment. However, while such fixed/ assured return favours the airport operator, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, airport operators like Calicut Airport have no incentive to look for productivity improvement or ways of increasing efficiencies and take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like Calicut Airport, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines. Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided to Calicut Airport. Such independent study can be exercised by the AERA in terms of powers conferred under the AERA Act, and in line with studies being conducted in case of certain major airport operators.
6	**Tendering Process and Royalty:** (Refer 9.2.3 of the CP)	Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers have 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 passed on to the airlines by the airport operator or other services providers. The rates of royalty at Calicut airport are as high as up to 31-32%. 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 Authority to abolish such royalty which may be included in any of the cost items.
7	**Non-Aeronautical Revenue:** (Refer 9.2 of the CP)	With regards to para 9.2.1, wherein the projects Non-Aeronautical Revenue for Third Control Period is projected lower than the actual revenue Second Control Period, FIA requests the AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study. With regards to para 9.2.5, it is requested that Calicut Airport explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes, as deemed fit. Without prejudice to the above, our submission is that increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase, and real increase/escalations in contract rates. However, AERA to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires.
8	**Operating Expenses:** (Refer 10.2.15 and Table 47 and 48 of the CP)	We appreciate that an independent consultant, M/s R. Subramanian and Company LLP was appointed to assist in the examination of the MYTP submitted by Calicut Airport. We are unaware as to whether Calicut Airport has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account.

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		It may be noted that cost incurred by Calicut Airport impacts the airlines, as such cost is passed through or borne by the airlines. In order to ensure that there is no adverse impact/increase in the tariff we request AERA should: (a) Put on hold any increase in operational expenditure by Calicut Airport; (b) Advise Calicut Airport to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner and address any increase in fees sought by Calicut Airport. Calicut Airport may be advised to reduce its cost by at least 35% and no escalation should be permitted; and (c) In view of the above, Calicut Airport should be directed to pass on cost benefits to the airlines. (d) In particular, we submit that: (i) Instead of a significant reduction in cost items of operating expenses, AERA has considered a Y-O-Y increase in O&M expenses.. Such an increase in the name of escalation, in a highly uncertain environment, where airlines have made heavy losses, should be avoided. (ii) Payroll Cost: Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses are proposed to increase Y-O-Y by 5% each year of the control period. It appears that Calicut Airport wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses. We submit that there should not be any increase in manpower or manpower costs till the existing manpower is effectively utilised as it will take another two (2)- three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced. Without prejudice to the above, Calicut Airport needs to considerably rationalize/restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

9	**Return on land – Third Control Period:** (Refer 12.2.8 of the CP)	It is noted that the Authority will allow return on land on the fourth control period (as per Order No. 42/2018-19). We recommend that no returns may be provided for investment in land by Calicut Airport in view of the fact that Land value does not depreciate.
10	**Aggregate Revenue Requirement / Shrinkage in Control Period Control Period:** (Refer 14.2.3 of the CP)	1. It is appreciated that AERA has, in para 15.2.7 of the CP, held a view not to burden the airlines further which are already suffering with the COVID-19 pandemic's impact, as also the other Users, with excessive tariff at this juncture. However, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – B, which is likely to reduce the ARR (including shortfall) of the operator. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines. 2. We submit that the Hon'ble TDSAT Order dated 16 December, 2020 stated as follows: '100…However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...' In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order Third Control Period will now be issued after the commencement of the Control Period i.e., 1 April, 2021.
11	**Tariff/Government Restrictions/Collection Charges:** **(Refer 18.2 of the CP)**	**Collection Charges:** We request you to kindly clarify the amount of **'Collection Charges'** and the specific details of the 'Policy' being referred in the tariff card. We further submit that the same should not be conditional upon Calicut Airport having received the **'undisputed invoiced UDF'** amount with the applicable due date.