

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

Minutes of the Stakeholders' Consultation Meeting held on 30th June 2021 at 11:00 AM on Virtual Platform

CONSULTATION PAPER No. 08/2021-22 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF AERONAUTICAL TARIFF FOR 3RD CONTROL PERIOD (01.04.2021 TO 31.03.2026) IN RESPECT OF COCHIN INTERNATIONAL AIRPORT, KOCHI (COK)

1. AERA Act, 2008, Sec.13, Clause-4 (a) empowers AERA to ensure transparency in Consultation Process for determination of tariff in the wider interest of the public and the stakeholders. Accordingly, a Stakeholder Consultation Meeting was convened by the Authority on 30.06.2021 at 11:00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 08/2021-22 dated 15.06.2021 issued by the Authority to consider the Multi-year Tariff Proposal for the 3rd Control Period (FY 2021-22 to FY.2025-26) in respect of **Cochin International Airport, Kochi (COK)**. The list of participants is enclosed as **Annexure-I**.
2. Chairperson, AERA welcomed all Stakeholders present in the meeting and extended his greetings. Chairperson acknowledged the fact that the aviation sector is still grappling with impact of the COVID-19 pandemic and added that the revival of the sector has not happened the way it was initially anticipated.
3. Chairperson stated that AERA appreciates the challenges in making forecasts at this point of time especially with respect to traffic, on which the other building blocks are developed and invited the valuable comments of the Stakeholders on the figures considered by the Authority in the Consultation Paper.
4. Chairperson invited the CIAL team to present their views on the proposals of the Authority.
5. **Cochin International Airport Limited:**
 - 5.1. Mr. A C K Nair, Airport Director & ED (Operations), CIAL gave a brief outline on the current situation at CIAL and informed that all employees of CIAL have been vaccinated against COVID-19.
 - 5.2. Mr. Santhosh J Poovattil, Regulatory Head, CIAL made a presentation to all the stakeholders present giving a brief history of the major events during the Second Control Period and also highlighting the concerns on the true up of the Second Control Period and the tariff proposals for the Third Control Period.
 - 5.3. CIAL stated that the Second Control Period witnessed some key events including the commissioning of the new state of the art terminal, conversion of old international terminal to domestic terminal, construction of aprons and re-carpeting of the runway. CIAL stated that they also faced two catastrophes, one being the flood and the other being the COVID-19 pandemic.



- 5.4. CIAL informed that considering the industry situation, they are not proposing any increase in aeronautical tariffs for domestic airlines for the next two financial years and for international airlines for one financial year. CIAL also stated that unlike in the past they are now compelled to introduce a small UDF after merging the PSF(FC) charges with it, which would also be the lowest when compared with other airports in the State of Kerala. The UDF is proposed to be introduced starting from 01 September 2021 or the date of issue of the Tariff Order, whichever would be earlier.
- 5.5. CIAL commented that as per the Tariff Order for the Second Control Period, AERA had considered a Cost of Equity of 14% for CIAL and had decided to true up it based on a study in this regard. However, in the Consultation Paper, the Cost of Equity of 15.16% as recommended by the study has been considered only for the Third Control Period. As a result, CIAL is the only private airport operator provided a Cost of Equity of 14% for the Second Control Period as against 16% considered for other private/JV airport operators, which is discrimination towards CIAL.
- 5.6. CIAL requested that the revenue share from CDRSL be considered as 30% as per the long term agreement with the CDRSL. Further, CIAL is also expected that CDRSL may be in losses for the next few years which wouldn't get factored if all the profits generated by the entity are used for cross-subsidisation. CIAL promised that they would voluntarily consider a higher revenue share percentage whenever possible as they had done in the past, wherein they have considered 45% which has benefitted the users of the airport by retaining tariff at same level. CIAL also added that such regulatory uncertainties create challenges in long-term planning. CIAL also cited the example of fully owned cargo subsidiaries of AAI for which AERA has allowed such revenue share agreements.
- 5.7. CIAL stated that Ministry of Corporate Affairs has implemented Ind-AS standards which CIAL is bound to adopt wherein component accounting is mandatory. Some assets of T3 by virtue of componentisation were identified to have a different useful life of 15 and 20 years. However, AERA has considered a useful life of 30 years for these assets as per Order No. 35/2017-18. However, in case of runway re-carpeting the adoption of different useful life on the basis of notional life of 30 years for the fully depreciated original runway appears to be inconsistent with the Authority's order on useful life of assets. CIAL requested the Authority to relook at this matter before issuing the Tariff Order as this creates administrative difficulties and has cost implications.
- 5.8. CIAL mentioned that the terminal allocation ratio has been considered as 8.94% based on the recommendation of the study on allocation of assets as against 7.19% as per the study commissioned by CIAL. CIAL also stated that they would submit their concerns in writing regarding some of the areas of reclassifications.

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- 5.9. CIAL requested the Authority to consider the capital expenditure and operational expenses incurred towards flood mitigation as completely aeronautical in both Second and Third Control Period. CIAL stated that the runway was constructed by diverting a canal system that prevailed at that time and the maintenance and rejuvenation of the same is to be done as per the initial in-principle order of the Government of Kerala. However, these were not done at the time due to paucity of funds. CIAL informed that the three floods in the Second Control Period has affected the passenger and airline community and has also caused public disorder. CIAL therefore requested the Authority to recognise the intention of the project and consider the expenses including that for the 'regulator-cum-bridge', which is an integral part of the ongoing measures, though the expenses were not entirely incurred on airport land.
- 5.10. CIAL also requested the Authority to consider actuals and projections of CSR expenses under operational expenses for both Second and Third Control Period citing the judgement of Hon'ble TDSAT in the case of BIAL.
- 5.11. CIAL commented that the lease rentals from Navy and Coast Guard should not be treated as aeronautical revenues as they are not covered under the AERA Act. Further, CIAL mentioned that the airline space rentals are treated as non-aeronautical revenues at other private/JV airports, however, AERA has adopted a different treatment for CIAL. requested to reconsider the same in the tariff order.
- 5.12. CIAL stated that no return on land has been provided in the Second Control Period but expressed their gratitude for consideration of the same in the Third Control Period. However, CIAL raised concerns on no return being provided on land that is vacant or earmarked for future usage, given that the process of land acquisition for airports is a difficult process and cannot be carried out based on individual requirements though expansion often happens in a modular fashion. Further, CIAL has the least land holding of ~1250 acres compared to other major airports. CIAL requested the Authority to reconsider this decision stating the work for Cargo facilities are already underway and the T3 expansion projects is basically a part of T3 only.
- 5.13. CIAL mentioned that the FRoR for the Third Control Period is arrived at considering a notional gearing and requested the Authority to mention in the final Tariff Order that the same would be trued up based on actuals since the Normative Order in this matter has not been enforced yet.
- 5.14. Regarding Financing Allowance, CIAL commented that the same was computed strictly in adherence with the AERA guidelines, however, AERA has provided such allowance only on the debt portion of project funds. CIAL requested the Authority to revert to the original guideline and provide a return on both the debt and equity portion.
- 5.15. CIAL mentioned that the traffic projections as per the Consultation Paper are quite similar to those of CIAL, hence CIAL has no comments on the same at this point of time given the uncertainties involved.

5.16. CIAL requested the Authority to re-compute the ARR after considering the above requests, however, CIAL would not immediately consider increasing tariffs from the currently proposed levels in response to a higher ARR. CIAL also requested that an interim relook, one or two years down the line on tariff proposal may be allowed as a one-time measure considering the pandemic and the resultant uncertainties, without any revisions to the ARR that would be determined in the Tariff Order.

6. The forum was then opened for stakeholder views/comments which are as follows:

7. Airport Operators & Private Airport Associations:

7.1. The following Airport Operators conveyed that they will submit the written comments within the stipulated timeline as detailed in the Consultation Paper.

- i. Airports Authority of India
- ii. Delhi International Airport Ltd
- iii. Mumbai International Airport Ltd
- iv. Kannur Airport
- v. Adani Airports
- vi. Association of Private Airport Operators (APAO)

7.2. Chandigarh International Airport Limited (CHIAL):

7.2.1. CHIAL during the Stakeholder Consultation Meeting asked whether the Refundable Security Deposits utilised by CIAL were interest free or not, and, the treatment thereof.

8. Airlines and Airline Associations:

8.1. Federation of International Airlines (FIA):

Mr. Ujjwal Dey, commended the independent studies conducted by AERA..

FIA also stated that, introduction of UDF/increase in tariff would be a burden on the passengers and also affect the demand., therefore, given the current situation, the increase in tariffs should be deferred for one or two years.

8.2. SpiceJet:

8.2.1. Mr. G P Gupta, representative from SpiceJet, stated that it is important to rebuild the aviation sector now in view of the recent challenges posed due to Covid-19.. He also emphasizes that Airlines act as a catalyst for the whole sector, but it is now expected that globally airlines would lose roughly \$8 billion USD across FY 21 and FY 22. Therefore, AERA should play a key role in ensuring that players don't get eliminated and creating a win-win situation for all stakeholders.

- 8.2.2. He also suggested few measures in this regard. One such measure could be the introduction of direct billing to airlines for into-plane and fuel infrastructure charges, due to the current circuitous billing system involving the airport operator, airlines end up paying 64-70% extra on top of basic costs.
- 8.2.3. Further, in the airline industry, aircraft lease rentals and salaries of Pilots have come down by 30% to 40% as a result of renegotiations in the light of the pandemic. AERA should advise the airport operators for similar renegotiations and scrutinise cost reduction measures before approving their proposals.
- 8.2.4. SpiceJet submitted that there should be no increase in tariffs at least for the next five years and any excess charges levied in the past must be ploughed back immediately.
- 8.2.5. SpiceJet also emphasized the significant reduction in Fair Rate of Return (FRoR). He also stated that even the return on Fixed Deposits have decreased over a period of time. Therefore, in the current scenario the tax-free return of 14-15% is not fair, instead the viability of the whole sector needs to be looked at, ensuring that no stakeholder loses heavily at the cost of others.
- 8.2.6. SpiceJet also requested AERA to continue carrying out independent studies while determining tariffs.

8.3. **Air Vistara:**

Mr. Moinuddin Wasil, representative from Air Vistara, supported the points raised by FIA and Spice Jet and commented that everyone is aware of the current situation with respect to the health of the airlines, hence the increase in cargo and other tariffs recommended by CIAL including the levy of UDF should be deferred by 1-2 years.

8.4. **International Air Transport Association (IATA):**

- 8.4.1. Mr. Amitabh Khosla, representative of IATA, offered IATA's compliments to AERA for a very thorough job with respect to the control period review and the consultation Paper thereon.. He added that the introduction of the three studies has been helpful for the consultation process.
- 8.4.2. IATA acknowledged the challenges and losses faced by the airline industry on account of the COVID-19 crisis and stated that Airlines have also started accumulating significantly higher debt to tide over this situation. Therefore, one must not lose sight of the impact on airlines and airline financials while revising tariffs..
- 8.4.3. IATA commented that due to the true up approach, where shortfalls are recovered in subsequent control periods, there is no significant risk for the airport operator. Hence, the FRoR provided to the airport operator should reflect this reality of the reduced risk.

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- 8.4.4. IATA noted that CIAL has proposed levying of UDF from both domestic and international passengers and mentioned that the approach of concurrently removing PSF(SC) charges during introduction of UDF is acceptable. IATA also suggested that the gap between international and domestic rates needs to be minimised from the very beginning. IATA also pointed out the recent directions of the Hon'ble TDSAT, wherein the appellate body observed charging of different rates for airlines as discriminatory and impermissible. In this context IATA requested AERA to consider equalising charges for international and domestic airlines.
- 8.4.5. IATA also suggested that all non-essential capital expenditure must be frozen, and all unnecessary costs must be minimised with high priority, given the extreme cost pressures faced by the industry and given that CIAL has already made large scale investments in capacity in the Second Control Period itself.
- 8.4.6. IATA mentioned that the traffic numbers forecasted by the Authority are in alignment with IATA's own forecasts with respect to recovery of international traffic in FY2024 and a faster recovery of domestic traffic by FY 2023. As we go forward, different scenarios must be considered for traffic and capital expenditure must be linked to certain demand triggers.
- 8.4.7. IATA stated that operational expenses have not been adjusted despite the pandemic, whereas in every other sphere, contracts are being renegotiated. IATA added that there are no incentives for airport operators to renegotiate long term contracts and cited the example of CUTE expenses that are assumed to escalate 10% annually. All other industry players are renegotiating their contracts and airport operators should also do the same. There is also a need for greater scrutiny of contracts with suppliers. IATA noted that CIAL has maintained its workforce. While the employee friendly nature of CIAL is welcome, wage tightening measures like temporary wage reduction and mandatory leave without pay, which are being implemented by other players in the aviation ecosystem, may be considered. CIAL should reduce and rationalize expenses to accommodate the low capacity mode in which the industry is currently operating.
- 8.4.8. On Refundable Security Deposits, IATA stated that its position is and always has been that these are essentially financed at zero cost for CIAL and what is received at zero cost should not qualify to earn a return. Any such utilisation of funds or benefits arising out of the same should be passed on to the users.
- 8.4.9. On return on land, IATA noted that AERA has done a detailed validation of the land usage and supports AERA's decision to not provide any return on the cost of land earmarked for future use until the same has been put to use.
- 8.4.10. On depreciation, IATA supported the approach of AERA in adjusting useful life for various classes of assets. IATA also requested the airport operator to seek opportunities to extend the useful life of its assets wherever possible.



8.4.11. IATA commented that Airport operators should adjust to the new market realities on account of COVID-19. Any increase in charges would hinder recovery of the sector. Therefore, IATA requested AERA to postpone recovery of losses to the Fourth Control Period as done in the case of Trichy for the First Control Period.

8.4.12. IATA mentioned that they were hoping for some reduction of charges in the Third Control Period itself, if not, charges should at least be maintained over the next two or three years. The recovery in the shortfall may be done in the next control period as in the case of Trichy airport.

8.4.13. Further IATA commented that the existing service level frame work needs improvement. Currently it is driven purely by qualitative and perception-based surveys and doesn't consider objective measurements. IATA requested AERA to consider revising the same.

8.5. **Business Aircraft Operators Association (BAOA):**

8.5.1. Gp. Capt. Rajesh K Bali, representative of BAOA, commented that CIAL has been a model for other airport operators for collaborative and cooperative airport services. He added that the consideration of airline lease rentals at other airports may be revised to non-aeronautical as treated in the case of CIAL, since any asset used for aeronautical purposes is aeronautical in nature. The differences in treatment of building blocks are due to the fact that OMDAs, which are specific to an airport, are not in alignment with the AERA Act. Though the OMDAs cannot be changed, an effort can be made to gradually align the AERA act to have a consistent treatment across airports.

8.5.2. BAOA requested that Ground Handling charges should be service driven for smaller aircrafts as they do not require comprehensive services. Further BAOA suggested that charges on standalone hangers that are far removed from the runway may be treated as non-aeronautical when aircrafts are parked away for longer periods of time. Also, all maintenance hangers at the airport should come under housing charges.

9. **Industry Associations:**

9.1. **Federation of Indian Chambers of Commerce and Industry (FICCI):**

Mr. Manoj Mehta, the representative of FICCI, stated that FICCI being an apex body advocates to the entire value chain. Regarding the comments of the other stakeholders on the Cost of Equity being provided to CIAL, FICCI commented that unlike airlines or other players in the industry, the airport operators do not receive any kind of support or relief from the government, therefore the regulator must support the airport operators in this aspect while determining tariffs. FICCI also suggested that at the same time expansion at all airports must be deferred and a benchmarking has to be done across airports internationally to assess the measures undertaken in other countries. A balanced approach should be followed such that future growth is not impacted.

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10. Independent Service Providers:**10.1. Federation of Freight Forwarders' Associations in India (FFFAI):**

Mr. Vipin Vohra, the representative of FFFAI, commented that Cargo has played a key role in keeping airlines alive, however the Consultation Paper does not have a dedicated section towards the discussion of improvement in Cargo facilities and revision in tariffs. He added that a monopoly exists in the cargo sector in India which is substantiated by the hike in cargo rates almost every year and the introduction of multiple special charges at all airports without proportionate improvements in cargo facilities. This is leading to increasing logistics costs which is hurting the country as a whole.

11. Counter Comments from Cochin International Airport Limited (CIAL):

- 11.1. CIAL responded to the comments on introduction of UDF stating that the proposed UDFs are lower than the existing UDF charges at other airports in State of Kerala and that CIAL has always been against levying UDF. However, this has now been introduced after merging the PSF (SC) charges so as not to burden the airlines by increasing parking, landing and housing charges. CIAL understands the situation faced by airline and therefore has postponed any increase in charges.
- 11.2. On the return on Refundable Security Deposits, CIAL commented that Cost of Debt has been provided which is fair enough and also clarified that these are interest free deposits received from agencies operating at the airport.
- 11.3. Regarding the increase in cargo tariffs, CIAL responded that since the beginning of cargo operations there was no increase in cargo tariffs for the first fifteen years and a small increase was made in the beginning of the Second Control Period and since then the rates have been kept constant. Even for the Third Control Period only a nominal increase has been proposed.
- 11.4. Regarding reduction in Operational Expenses, CIAL stated that all efforts are underway in this regard. CIAL informed that all benefits and allowances to employees have been put on hold and no increments have been given in the last two years. Negotiations are ongoing with all agencies like housekeeping to revise contractual rates. CIAL added that Kerala is an employee friendly state and termination of employees could lead to repercussions due to which CIAL is trying to manage by reducing costs through other measures.



12. Response of Member, AERA:

- 12.1. Mr. Subrata Samanta, Member, AERA, clarified that the reviews of capital expenditure and operational expenses in light of the pandemic have to be done by the airport operators themselves. He advised all airport operators to look into this aspect and try to bring down costs wherever possible through renegotiation of contracts and other measures suggested by the stakeholders, as this will help not only in reduction of tariff but will also be beneficial to all the stakeholder directly or indirectly.
- 12.2. Regarding the flood mitigation measures carried out beyond the airport boundary, the Member stated that AERA normally considers only the costs which are related to the operation of the airport.. If any costs beyond the airport boundary are to be recognised, then it has to be specifically explained and justified that they are essential to the airport operation and not to the general public..
- 12.3. Regarding the billing of fuel infrastructure charges, the Member stated that AERA has no mandate to ask oil marketing companies to change their billing system unless directed by the Government. The AERA is mandated to determine aeronautical tariffs of Major airports. The Member also advised airlines to negotiate directly with fuel infrastructure companies and oil marketing companies in this regard ,if that would help in reducing costs.
13. Member, AERA thanked all participants on behalf of AERA and expressed his gratitude towards the participants for joining the consultation process and giving their valuable viewpoints. He also mentioned that AERA will consider all the points raised by the Stakeholders and requested for timely submission of written comments as it would help AERA to issue the Tariff Order in a time bound manner.



Jaimon Skaria
AGM(Fin)

List of Participants:**Airports Economic Regulatory Authority of India**

1. Mr. B S Bhullar, Chairperson
2. Mr. Subrata Samanta, Member
3. Col. Manu Sooden, Secretary
4. Mr. Ram Krishan, Director (P&S)
5. Mr. Jaimon Skaria, AGM (Fin)
6. Ms. Geetha Sahu, AGM (Fin)

Airport Operator Cochin International Airport, Kochi (CIAL)

1. Mr. A C K Nair
2. Mr. Santhosh J Poovattil
3. Mr. A M Shabeer
4. Mr. Saji Daniel

Representatives from Airport Operators and Private Airport Associations

1. Mr. Ranjit Kumar Das, AGM (Fin), AAI
2. Mr. Satyan Nayar, Association of Private Airport Operators (APAO)
3. Mr. Harsh Gulati, Delhi International Airport Limited
4. Mr. Madhur Arora, Adani Enterprises
5. Mr. Sanjiv Bhargava, Mumbai International Airport Limited
6. Mr. Jayakrishnan, Kannur International Airport Limited
7. Mr. Jithendra P V, Kannur International Airport Limited
8. Mr. Rakesh Dembla, Chandigarh International Airport Limited

Representatives from International Air Transport Association (IATA)

1. Mr. Amitabh Khosla
2. Mr. Ujjwal Bakshi

Representative from Federation of International Airlines (FIA)

1. Mr. Ujjwal Dey

Representatives from Airlines

1. Mr. G P Gupta, SpiceJet
2. Mr. Deepak Chug, SpiceJet
3. Mr. Moinuddin Wasil, Air Vistara
4. Mr. Kartikey Bhatt, Air Vistara
5. Harjinder Singh , GoFirst

Industry Associations

1. Mr. Manoj Mehta, FICCI
2. Gp. Capt. Rajesh K Bali, BAOA
3. Mr. Vipin Vohra, FFFAI

Independent Service Providers

1. Mr. Suprabhat Nagar, BSSPL
2. Mr. Kundan Singh, BSSPL

Oil Companies

1. Mr. Pulkit Mathur, BPCL
2. Mr. Aytoda Kiran S, BPCL
3. Mr. Joshua Paulose, HPCL
4. Ms. Princy, IOCL

AERA Consultants

1. Prof. Ravi Anshuman, IIM Bangalore
2. Mr. Sonal Mishra, PwC India
3. Mr. Sanuj Mittal, PwC India
4. Dr. GK Chaukiyal, Airport Expert with PwC India
5. Mr. Amit Hemnani, PwC India
6. Mr. Rishi Vardhan, PwC India
7. Mr. Rahul Varshney, PwC India

