



Federation of Indian Airlines

E-166, Upper Ground Floor,

Kalkaji,

New Delhi - 110019.

Website: www.fiaindia.in

MOST URGENT

28 January 2022

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110003.

Kind Attention – Shri. Balwinder Singh Bhullar Ji

Sub: FIA Response to Consultation Paper No. 26/2021-22 dated December 30, 2021 on determination of Aeronautical Tariff for Pune International Airport, Pune for the Third Control Period (01.04.2021 – 31.03.2026)

Dear Sir,

In response to the Consultation Paper No. 26/2021-22 issued by the Airports Economic Regulatory Authority of India (“**AERA**” or “**Authority**”) in the matter of determination of Aeronautical Tariff for Pune International Airport, Pune (‘PIA’ or ‘**Pune Airport**’) for the Third Control Period (01.04.2021 – 31.03.2026) (‘**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.

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.

While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 and subsequent emerging variants of COVID-19 (December 2021 onwards), has again impacted the operations to a certain extent and resultantly prolonged the process of financial recovery.



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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 approximately 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

You will further appreciate that, while the low passenger demand for air travel/ load coupled with certain Government Restrictions on fare, prevents airlines from generating adequate passenger revenue, airlines continue to incur high operational cost, including on account of high airport charges and taxes.

While the Consultation Paper proposes a decrease in the aeronautical tariffs, we request AERA to kindly note our submissions as more particularly mentioned under Annex – A attached hereto. In this regard, we humbly request AERA to reduce the proposed tariffs further in the Third Control Period, given the adverse financial impact of COVID-19.

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

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 and on behalf of the Federation of Indian Airlines,

UJJWAL DEY
Associate Director

Copy to:

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



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Annex – A

FIA comments on AERA CP.No. 26/2021-22 dated 30 December 2021 on determination of Aeronautical Tariff for Pune International Airport, Pune for the Third Control Period (01.04.2021 – 31.03.2026)

<p>1</p>	<p>Revenue from Air Navigation Services and Cargo services: (Refer 1.1.2, 1.4.3 and 1.4.4 of the CP)</p>	<p>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 -</p> <p>(i) For navigation, surveillance and supportive communication thereto for air traffic management.....</p> <p>(v) for the cargo facility at an airport..”</p> <p>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.</p>
<p>2</p>	<p>Aeronautical Capital Additions approved in the Second Control Period Order but deferred to the Third Control Period: (Refer 4.2.1, 4.2.2, 4.2.9, 4.2.20 Table 57 and Table 65)</p>	<p>It is observed that Pune Airport has tendency to exceed the normative cost benchmarks as well as overestimate the capital expenditure and thereafter defer it to the subsequent control period. In this regard, we recommend that an adjustment of 1% or higher of the project cost, as deemed fit, from the ARR in case any particular capital project is not completed/capitalized as per the approved capitalisation schedule, which should be applied on the deferred projects of the Second Control Period, other than those affected solely by the adverse impact of COVID-19 .</p> <p>In addition, we would request AERA to ensure that the operator complies with the AUCC consultative meetings and timelines thereof for all assets crossing the requisite threshold limit prescribed by AERA in Third Control Period, including an update on the progress of NITB project. Further, as mentioned under Para 9.9 of the Second Control Period Tariff Order issued by AERA for Pune Airport and further referred under 4.2.9 (C) of the present Consultation Paper, we request AERA to conduct independent study for reasonableness of capital expenditure so that appropriate adjustments are made to capital expenditure/ RAB for Second and Third Control Period.</p>
<p>3</p>	<p>True Up of O&M Expenses for the Second Control Period: (Refer, 2.8.2 2.8.5 and Table 18 and 19)</p>	<p>We appreciate that AERA is of the considered view that stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on part of the Airport Operator.</p>

		<p>Pune Airport has paid interest/penalties to Government of India at CHQ & RHQ level. We appreciate that such expenses have not been allocated to the respective airport.</p> <p>In addition, it is observed that several estimations in the Second Control period had missed out items as well as not completely considered some items by Pune Airport at time of submission for the Second Control Period. AERA is requested to kindly treat these inaccurate submissions with scrutiny such that the final impact may not substantially vary from the estimates provided.</p> <p>Further, it is noted that while AERA expected a reduction on the O&M expenditure over a period of time, still the O&M expenses in the Second Control Period spiraled. We would appreciate AERA to undertake suitable independent study for efficient capital expenditure – For e.g., as done in the case of Kolkata Airport, with an intent to bring down the cost and reduce the ARR during ‘True Ups’ accordingly.</p>
4	<p>New Aeronautical Capital Additions and Total Aeronautical Capital additions proposed by AERA: (Refer 4.2.1, 4.2.4, and Table 58, 65, 69 and 72 of the CP)</p>	<p>We appreciate that considering the reduced traffic owing to COVID-19, AERA has rationalized the capital expenditure and excluded certain proposed additions by Pune Airport to RAB.</p> <p>We appreciate that AERA has pointed out the non-consideration of the GST on Baggage handling system and passenger boarding bridge, which will be available as GST credit of Rs. 926.27 lacs. We also note that non allowance of Finance allowance of Rs. 3,333.57. These items themselves have a substantial impact on determination of the ARR and Tariff; at the same time, the Operator may kindly avoid such claims in the future, such that the estimations may be able to reflect the true picture.</p> <p>Stoppage of non-safety related capital expenditure:</p> <p>Pune Airport has proposed capex in the respective control period and postponing it to the next control period. Further, AERA acknowledged the effect of the pandemic in the Second Control Period on certain capital expenditure projects. It is pertinent to note that AERA has observed in other consultation papers that a delay in the capitalisation of works would unfairly burden the airport users without passing on the benefits to them. As mentioned above it will take around two (2) -three (3) years for the flight operations to reach to its pre COVID-19 peak levels.</p>

		<p>In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by Pune Airport be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Pune 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. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, the same should be considered by AERA.</p>
5	<p>Terminal Building Ratio and Actual Usage of Terminal Building: (Refer 4 & 4.2.40. 4.2.23 of the CP)</p>	<p>AERA has sought stakeholders' views on the non-aeronautical component of the terminal building ratio (TBLR), as Pune Airport has proposed in the range of 5-7%, whereas AERA stated that this is in contrast to the 8-12% range as per IATA and IMG norms. AERA has proposed to consider a TBLR of 90:10 for the Third Control Period.</p> <p>In our view, while we agree with AERA that the non-Aeronautical ratio proposed by Pune Airport is on the lower side, we request AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study to be conducted on or before the tariff determination of the Third Control Period.</p> <p>Furthermore, as per para 4.2.23, it is to be noted that as per submissions by AAI and considered by AERA, at the end of FY2022-23 the building will have the holding capacity of 19 MPPA, it further states due to Covid-19 there is fluctuation in the traffic and usage capacity of the building has changed from 47% to 59%. However, the entire cost of building has been capitalized in the Third Control Period. We would request AERA to capitalize only those costs pertaining to NITB being proportional to the usage area of NITB in the Third Control Period.</p>
6	<p>Fair Rate of Return (FRoR): (Refer 5.2.9 of the CP)</p>	<p>We appreciate that AERA has considered a lower FRoR of 11.63 %, which is net of income tax return to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the service provider, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.</p> <p>Due to such fixed/assured returns, Airport Operators like Pune Airport have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns.</p>

		<p>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 Pune 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.</p> <p>Without prejudice to the above, in case AERA is unable to accept our recommendation mentioned above, it is requested to conduct an independent study for determination of FRoR to be provided to Pune Airport. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators.</p>
7	<p>Operating and Maintenance Expenses: (Refer 2.8.42, 6.2, 6.2.2 and Table 44, 89 & 90 of the CP)</p>	<p>As per para 2.8.42 & Table 44, AERA has raised concerns regarding the inefficiencies and high cost of O&M expenses and directed AAI to lower their Aeronautical Operating & Maintenance expenses for the Second Control Period. However, as seen from Para 6.2.21 & table 90, despite the directions of AERA we observe that there is further increase in proposed O&M expenditure for Third Control Period.</p> <p>We are unaware as to whether Pune Airport has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by Pune Airport impacts the airlines, as such most of the cost is passed through or borne by the airlines.</p> <p>In view of the above, we request AERA should:</p> <ul style="list-style-type: none"> (a) Put on hold any increase in operational expenditure by Pune Airport; (b) Advise Pune 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 Pune Airport. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. Accordingly, Pune Airport needs to significantly reduce all such costs in a very aggressive manner. Pune Airport may be advised to reduce its cost by at least 35% and no escalation should be permitted; and



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(c) In view of the above, Pune Airport should be directed to pass on cost benefits to the airlines.

(d) In particular, we submit that:

i. Expenses on account of CSR as given in table 43 of Consultation paper may be excluded. This will be in line with the similar treatment to CSR expenditure, given to CIAL at Cochin International Airport.

ii. Y-O-Y increase in the O&M expenses proposed by Pune Airport is approximately 4% to 7%. Instead of a significant reduction in cost items of operating expenses, AERA has proposed a Y-O-Y percentage increase of around 3% to 5% between 2022 and 2026. Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations, appears to be without any rationale and should be avoided.

iii. **Payroll Cost:**

Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses as proposed by AERA are to increase Y-O-Y each year by 3% over the five (5) year control period.

We submit that while the aviation sector, including airlines, have incurred huge losses and are struggling to meet their operational costs, the Pune Airport on the other hand seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector. It appears that Pune 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 till the existing manpower is effectively utilized 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.



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		<p>Without prejudice to the above, Pune Airport needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) to three (3) years.</p>
<p>8</p>	<p>Non-Aeronautical Revenue: (Refer 7.2.11 and Table 95 of the CP)</p>	<p>a. We request AERA to kindly undertake a detailed scrutiny examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the Third Control Period, as we are of the view that the low figures of Pune are conservative. It is further requested that Pune Airport explores all avenues to maximize revenue from the utilization of terminal building (including NITB) for non-aeronautical purposes, as deemed fit.</p> <p>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. AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires.</p> <p>b. Royalty:</p> <p>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.</p>

		<p>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.</p> <p>The rates of royalty at Pune airport are as high as up to 13-15% for some services. 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 ‘Aeronautical Revenues’ helps in subsidizing the aero charges for the airlines, however royalty in ‘Non-Aeronautical Revenues’ hits the airlines directly without any benefit.</p> <p>In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items.</p>
9	Application of ‘Single Till’	<p>FIA submits that in Para 1.2.2 & 2.4.3 Consultation Paper, it is stated that the AERA shall determine tariffs for using the 30% Hybrid Till model including for true ups as applicable. It is to be noted that the Federation of Indian Airlines has from time to time advocated the application of a Single Till model across the airports in India. FIA submits that AERA should adopt Single Till basis across all Control Periods, including by way of true up, in view of the following legal framework:</p> <p>In the Single Till Order, AERA has strongly made a case in favor of the determination of tariff on the basis of ‘Single Till’. It is noteworthy that the AERA has, inter alia, in its Single Till Order:</p> <ul style="list-style-type: none"> (i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements. (ii) Considered the legislative intent behind Section 13(1)(a)(v) of the AERA Act. (iii) Concluded that the ‘Single Till’ is the most appropriate for the economic regulation of major airports in India. (iv) The criteria for determining tariff after considering standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.

		<p>Further, AERA in its AERA Guidelines (Clause 4.3) has followed the 'Single Till' approach while laying down the procedure for determination of ARR for Regulated Services.</p> <p>The fundamental reasoning behind the 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue.</p> <p>The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be considered by the AERA.</p>
10	<p>Tariff/Government Restrictions: (Refer 12.2.4 and 12.2.5, 15.2 Annexure II of the CP)</p>	<p>i. Overall Tariff: While AERA has proposed a decrease of approx.15 % in the Parking Charges and UDF for the aforementioned charges. However, keeping in view the adverse impact caused to the airline due to the COVID-19 pandemic, we are of the view that there should be a further reduction in the existing charges, considering our submissions & recommendation mentioned above, we can bring the tariff levels down. AERA may appreciate that it is in the interest of all stakeholders to reduce tariffs in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector.</p> <p>ii. UDF Charges: As per para 15.2.2, Annexure - II of the Consultation Paper, rate of collection of UDF charges has not been clarified. We understand that such rate of Collection Charges (being clarified in other Consultation Papers is Rs. 5 (Rupees five only) per departing passenger. We request that the same is clarified in the Tariff Order for Pune Airport. We further request that the Collection Charges, the entitlement for airlines, should be against AAI having received the 'undisputed' invoiced UDF amount with the applicable due date.</p>