



GSEC Limited

Counter Comments for Response received from M/s Spice Jet for Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 14/2021-22 dated 24th August, 2021 to consider the Multi Year Tariff Proposal (MYTP) for the 3rd Control Period (FY 2021-22 to FY 2025-26) in respect of M/s GSEC Limited for Providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SCPIA), Ahmedabad

Date of Submission: 21st September 2021

1. Review of tendering process:

We have noted this point though it is up to the tendering authorities to structure the tender and it is absolutely their prerogative. We would also like to draw your attention to the following facts which have been erroneously quoted in the comments. The present contract has been awarded for a period of 30 months from 1/7/20 to 31/12/22. The authority has already fixed a cap of royalty share and present rate is well below the permissible limit.

Further, as mentioned in our submission, there is going to be a third custodian of international cargo in next few days. This new facility will have a capacity of 1000 MTs per month. Hence, GSEC submits that as new players start providing these services the benefits of enhanced quality of service and competitive rates directly accrue to the airlines and other stakeholders.

2. Deferment of capital expenditure:

We are thankful for the confidence reposed in us of achieving pre-covid level without any capital expenditure. One very critical variable is cited once again at the cost of repetition.

As mentioned in our submission, there is going to be a third custodian of international cargo in next few days. This new facility will have a capacity of 1000 MTs per month. With three custodians sharing the same volume (even assuming, say pre-covid level) the volumes are most certainly likely to decline significantly. It becomes, therefore, unavoidable for a custodian to keep investing and replacing old equipment to retain competitive edge and service quality. As mentioned earlier, X-ray machines procured prior to 2018 are single view machines which will need to be replaced with dual image machines. The mention about double charging by customs as well as custodian is completely erroneous and misleading.

3. Abolishment of Royalty Charges/Concession fee:

The Authority, vide Order No. 1/2018-19 dated 5th April 2018 capped the total royalty % to 30%. This was to abolish the practice of charging exorbitant rates, the cost of which is ultimately borne by the end user. It may be noted that the agreement between AAICLAS and GSEC Limited is well within the maximum % of 30%. Further, while for the first 4 years, the rate was only 13%, it is only in the recent past that the rates have been gradually increased to 25% commensurate with the level of business and quality of service. This is a fee paid to AAICLAS to compensate them for providing the right to carry out the cargo business. Hence, GSEC submits that the agreements and the royalty rates adhere to the royalty capping orders passed by the Authority and does not see a reason for abolishing the same.

4. Operational Expenditure - Drastic cost cutting:

GSEC also undertook a concentrated cost reduction exercise. Salaries of all employees beyond Rs 20000 per month were cut by 30% for almost a year. We have re-negotiated existing contracts of repairs and maintenance, have temporarily taken some equipment out of operations to save on annual maintenance contract. It is also incorrect to say that entire cost of GSEC is borne by airlines. Airlines only pay screening charges to us which is Rs 1.5 per Kg. Where as we deeply value this revenue stream, it is quite insignificant compared to other revenue streams from Importers, exporters, custom house agents, freight forwarders, bonded trucking operators etc.

4.1 Labour charges

Most of our workforce are just above minimum wages. The question of reduction and not giving them increment as mandated by regulatory authorities does not arise. Our salary structure for other middle and even senior level employees are far below other aviation sectors such as airlines. In any case, as a management we have decided to continue with marginal increases to offset inflation and pandemic related hardships. Again, there is no possibility of recovering entire cost from airlines for the reason explained in above.

4.2 Corporate Office CHQ expenses:

CHQ expenses are absolutely in line. Most of our service staff such as central accounts, HR, IT and general management sit at city office. This is necessary because of paucity of space at the cargo complex as well as proximity to external agencies such as customs head quarters. As mentioned earlier in our submission, there is not significant activity besides Ahmedabad cargo operations happening at CHQ. To be on the conservative side, we have allotted only a part of such expenses to air cargo operations.

4.3 Other expenses:

This point is explained in our earlier comments. The point that GSEC is not trying to bring cost down is highly presumptuous and erroneous. It is a constant endeavor and an on going process.

5. Return on Revenue and Tariff Order:

GSEC reiterates that with increasing costs, need for frequent replacement of machinery to upgrade the quality of services and dwindling traffic coupled with new entrants into the market have all led to falling profits for the organization. As mentioned in our comments to the consultation paper, the profits after simulating the traffic post entry of competitors is far below manageable levels.

GSEC further submits that the increase in tariff is required for the following reasons:

- Cargo operations rate card was last revised in the year 2011-12 vide AERA Order 42/2012-13 and the prices have continued while the cost has increased significantly.
- Since the last tariff increase was given in 2011-12 for Ahmedabad, GSEC requests for minimum increase to compensate for inflation and to meet the capital investments.
- The company faces heavy competition from its peers operating at neighboring Airports in terms of quality of service and it is utmost important for the company to invest in maintenance of assets, human resources and upgrade its infrastructure.

GSEC prays to the Authority to consider the submissions made while passing the Order.