Federation of Indian Airlines
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Website: www.fiaindia.in

MOST URGENT

26 August 2021

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

Kind Attention: Shri. B.S. Bhullar, IAS

Sub. : FIA response to the AERA Consultation Paper No. 12/2021-22 on determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited at IGI Airport, New Delhi, for the third control period (01.04.2021 – 31.03.2026) ('Consultation Paper/CP')

Dear Sir,

At the outset, we would like to express our sincere gratitude to the Airports Economic Regulatory Authority of India (**Authority**) for 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 adversely impacted.

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. At present, the airlines' operations are barely at 40-50% of the pre COVID-19 capacity and the passenger traffic at around 40 to 50% of pre COVID-19 levels.

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.

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

In view of the above background, our comments on the Consultation Paper are as follows:

1. **Optimum Utilization of existing 'Open Access' fuel infrastructure & deferment of non-essential capital expenditure**

   As mentioned above, post COVID-19, it will take around two (2) - three (3) years for the flight operations to reach to its pre Covid-19 peak levels. Accordingly, the Authority and DAFFPL need to review the usage of existing 'Aviation Fuel Farm facilities' at IGI Airport, Delhi (**Delhi Airport**) to cater to the proposed traffic levels, without any new or additional investments, at the present stage. In this regard, the Authority should direct DAFFPL to ensure that all efforts are made to utilise T2/T3 'Open Access' fuel infrastructure to its complete potential and leveraging its benefits, before undertaking investment for T1 fuel farm infrastructure, as required.

   In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure (For e.g., New Administrative Building) proposed by DAFFPL, should be put on hold/ deferred, unless deemed critical from a safety compliance perspective. Further, in case DAFFPL 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.

2. **Review in Fuel Infrastructure Charges (FIC) & Into Plane Charges (ITP)**

   Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Third, this FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines.

   We would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing business' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-seven (67) % to Airlines.

   We strongly urge the Authority to undertake a thorough investigation retrospectively to determine the actual cost of efficient operations and revenues collected by DAFFPL till date. All excess recoveries to be passed on to the airlines and future tariff to be determined based on actual cost of efficient operations.

3. Review of Operational Expenditure

FIA is unaware as to whether DAFFPL 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 DAFFPL impacts the airlines, as such cost is passed through or borne by the airlines. The Authority may like to advise DAFFPL to re-negotiate all the cost in a significant manner and address any increase in fees sought by DAFFPL.

In view of the industry reports from IATA and CAPA, which foresee a minimum period of two (2)-three (3) years for air traffic and flight operations to reach Pre COVID-19 levels, we request that the Authority should put on hold any increase in such expenditure. Further, the Authority should instruct DAFFPL to review its spending on these heads and take immediate steps to reduce and control its expenditure, especially when airlines are currently only operating 40 - 50% of overall size. Further, DAFFPL should be directed to pass on such cost benefits to the airlines.

4. Review of Tendering Process

Authority should ensure that in the tendering process adopted by DAFFPL, the tenders are awarded to only those parties which provide the competitive costs with best-in-class services. Any attempt to award the contracts on the highest revenue share basis to DAFFPL should be discouraged. It is general perception that DAFFPL has no incentive to reduce their 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.

5. <u>Other comments on the Consultation paper/CP</u>:

(i) **Useful Life** (Refer 4.15.6 and 5.5.2 of CP):

FIA requests Authority to reconsider the Useful Life of 05 years proposed to be considered for 'Roads', as the Authority order No. 35/2017-18 mentions the Roads to have a Useful life of "05/10" years, and hence the depreciation applied should be 10% instead of 20%.

(ii) **Over Recovery** (Refer 4.23.1 of CP):

DAFFPL has made an over recovery of Rs. 14,729.95 Lakhs during the second control. Authority and DAFFPL should undertake appropriate measures to ensure that there are no/minimal cases of over recovery, in future, which will assist in lowering the burden of tariff on airlines/passengers.

(iii) **RAB (Construction of New Administrative Building)** (Refer 5.1.3.4 of CP):

Construction of the New Administrative Building may be kept on hold until a decision on disposal/ alternate use of the existing administrative building has been made.

(iv) **Penalty** (Refer 5.3.3 of CP):

While the airline industry has been cutting down the capital expenditure to mere bones in the face of current extraordinary situations, we suggest that that the Authority may consider more stringent penalties in excess of 1% in the event of any delay or significant reduction in the execution of capital expenditure as finally approved for the third control period such that efficiencies in the system are encouraged and inefficiencies discarded.

(v) **Employee Expenses** (Refer 7.6.1):

While the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staff, on the other hand DAFFPL seems to have paid full salaries to its staff including annual increments which is completely unheard of, in the same aviation sector. It appears that DAFFPL wants to recover its full employee cost from the airlines, which are not even able to pay salaries to their support staff. In our view, DAFFPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

(vi) **Operating Expenses and other expenses** (Refer 7.6.2, 7.6.3 and Table 42 of CP):

FIA stated that rather than significant reduction in cost items of operating expenses (in para 7.6.2 of the CP), DAFFPL is proposing a 'Year on Year' increase between 9% and 25%, whereas the Authority is considering an increase between 8 to 12% in the name of escalation in a highly uncertain environment where we are just operating at approx. 40-50% of the pre Covid-19 levels. Similarly, in section 7.6.3, other expenses, DAFFPL is proposing a Year-on-Year increase between 10% and 30%, whereas the Authority is also considering an increase between 10 to 20% in the name of escalation.

It may be noted that rather than escalations, across industries all the costs have been renegotiated downwards substantially. DAFFPL needs to significantly reduce all such costs in a very aggressive manner. DAFFPL may be advised to reduce its cost by at least 35% and no escalation should be permitted.

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(vii) **Price Cap Approach** (Refer 3.14.1 of CP):

It is recommended that the Authority issue clarifications/amendments to the CGF Guidelines that even in the light touch approach, the Authority would ensure that extraordinary profits do not accrue to the service provider and that the end user is not burdened with higher tariffs.

In addition, the Authority should continue the applying the Price-Cap approach for reasons of consistency to ensure uniformity between DAFFPL and MAFFL & IOSL.

While FIA appreciates the reduction in rates of FIC by Authority in the present CP, Authority may review further reduction in FIC, in view of above.

We hope that your good self will positively consider the above recommendations/ comments as it will help in achieving the affordability and sustainability of the aviation sector including the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016. Needless to state that sustainability of airlines will be key for continuity of DAFFPL and other service providers in the aviation sector.

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

Thanking you,

Yours faithfully,

For and on behalf of **Federation of Indian Airlines**

UJJWAL DEY
Associate Director

<u>Copy to:</u>
Director (P&S Tariff), Airports Economic Regulatory Authority of India (**AERA**)