

Date: 7 February 2022

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

Subject: Reply to Concerns raised by SpiceJet Ltd. on Consultation Paper No. 28/2021-22 dated 14th January 2022 for determination of tariff for Ground Handling Services for Mangalore International Airport, Mangalore, for 3rd control period for GSEC Bird Airport Services Private Limited (GBASPL)

File No. AERA/20010/MYTP/GBAS/GH/Mangalore/2021-26

Dear Sir,

We hereby submit point wise replies to the concern raised by M/s. SpiceJet Ltd. on Consultation Paper No. 28/2021-22 dated 14th January 2022, as referred above:

1. Capital Expenditure:- (table 4 and point no. 4.2 of the CP)

Here we submit the followings:

- a) GBASPL is required to induct ground handling equipment that are acceptable to its customer airlines which they audit in detail before signing SGHA.
- b) GBASPL is committed to provide ground handling services, at least meeting the service levels expected by the airlines and the airport operator for better passenger service experience.

Hence need to incur capital expenditure.

2. Operating Expenditure: - (table no. 5 and point no. 5.3 & 5.9 of the CP)

We feel that the observations made by SpiceJet Ltd are very generic in nature, lacks any substance and indicates that observer is unsure and unaware of the facts/ground realities.

Please note that we are a ground handling company of proven track record. We are providing ground handling services at major airports in India since last 12 years and have sufficient control over our operational expenditure.

The increase in headcount is corresponding to the increase in the aircraft movement. Please note that ground handling services are not a something with can be automated without incurring substantial investment which will adversely impact the charges. Ground handling services are provided by a team of trained and qualified staff under sufficient supervisions, which is followed globally as well as during self-handling process by Indian domestic carriers.

Regarding salary of the staff, please note that we pay our staff according to the “minimum wages” published by the regulator twice a year. There is no scope of material savings in the per head salary cost without compromising on quality and safety aspects of the total service package.

The observation made by SpiceJet Ltd. “that R&M expenditure should be almost zero in the first two to three years, during which the warranty period would be valid” contradicts their earlier observation that there should not be any capex for next 2-3 years.

Here, please note that even if the equipment are new, we have to incur expenses on their regular servicing and day to day maintenance. Please note that our ground service equipment, vehicles undergo tough operations duties and these equipment needs to be periodically serviced, always maintained. Warranty covers the major break-down related costs only.

Another important factor needs your attention is that equipment are sold with / without warranty and in case, equipment are purchased with warranty, the relevant costs are added which are more than in house maintenance cost. In addition, service support in warranty comes with time delays as compared to in house maintenance, thereby reducing capex on standby equipment.

Hence, we have forecasted our repair & maintenance cost at very reasonable basis and based on our experience of 12 years at other airports in India.

The observation made by SpiceJet Ltd. “that Royalty / Concession Fees is in the nature of market access fees, charged by the service provider under various headings without any underlying services.

Here again the observations made by SpiceJet Ltd. is nowhere close to reality on ground. It is now almost 14 years that the ultimate owner of Indian airports i.e. Airports Authority of India (AAI) is on a continuous derive to privatize Indian airports. All these concessions for airport operations carry revenue share. Such private appointees (as Airport Operator for a defined concession period), further issue concessions on the basic parameter of the concessions issued by AAI. As a result, the ground handling concession also attract concession fees. This method is prevalent at all the airports in India, be it under AAI or a private concessionaire. The revenues earned by airport operators are reviewed by AERA to ascertain that the airport charges are meeting AERA guidelines.

Therefore, concession fees paid by airlines to a ground handling agency is revenue of the airport operator, contributing to lowering of other airport charges, paid by the airlines to the airport operator. In a hypothetical situation where the concession fees is nil, the airport charges will be higher than the airport charges paid by the airlines when concession fees is applied on ground handling charges.

In nutshell, the royalty on the Ground Handling Services is considered as Aero Revenue for the Airport Operator and hence directly helps the Airlines in subsidizing the Aero Charges which airport operator charges to the airlines.

3. Tariff Proposal:- (table no. 6, 7 & 8 and point no. 6.1, 6.2 & 6.3 of the CP)

As per point no. 6.5 of the CP, the Authority has mentioned that proposed tariff for International scheduled flights submitted by GBASPL is lower than the adhoc tariff approved till Mar'22. Also in case of Domestic Schedule Passenger Flights, proposed Tariff for FY 2021-22 is lower than corresponding ad hoc Tariff (except for few categories of aircraft). Adhoc tariff was approved based on the approved tariff of existing ground handling company. So, it is clear that proposed tariff for FY 2021-22 is lower than the approved tariff of earlier ground handling company.

As per point no. 6.6 & 6.7 of the CP, the authority has mentioned that GBASPL has proposed an increase of 7% YoY from FY 2022-23 onwards.

We here also submit that this increase is after taking effect of:

- a) Increase in the minimum wages rates;
- b) General inflation linked increase in the operational cost.

All this can be corroborated through inflation data published by the government.

The situation under which the observer made his observation, is not true and/or relevant for the third control period for which the CP is released by the authority.

Also we feel that the observation made indicates that observer is unaware of the ground realities. Kindly note that in cases of non-scheduled operations, we as a ground handling service have to provision certain additional set of equipment and manpower as we have to be ready to provide ground handling services. But at the same time, in cases of non-scheduled operations, we do not have any surety of recovering our cost due to the nature of non-scheduled operations.

It is also important to mention here that the rates we have proposed for your approval are the maximum rates and airlines are welcome to discuss and negotiate commercials. This process is not new and is effectively working under guidance of AERA at all Indian airports.

Regarding observation made on why there is volume based tariff structure, we submit that while observer is agreeing to our submission in above para, we further submit that for bringing more transparency in our tariff card, we are submitting volume based tariff for approval of the authority.

We further submit for your kind consideration, some facts pertaining to our case i.e. in cases of Ground Handling Agencies:

- a) We have to keep our workforce and equipment running to ensure 24/7 availability of our services;
- b) Our major customers are international airlines which are currently operating at only 30% capacity of pre-covid level.
- c) Our Ground Handling Service charges, from handling domestic flights, recovers mainly variable cost only.
- d) Our fixed cost is mainly recovered from International operations. So, we worst affected because International operations are running at only 30% capacity.
- e) Domestic airlines have a choice of doing self-handling of their flights which they do where they have large operations and can achieve economy of scale. Only at airports, where the airlines do not have large operations that they appoint a Ground Handling Agency to handle their flight.
- f) While appointing a Ground Handling Agency, they have a choice of GHAs who compete with each other to get the business.

Let us know in case you need any information or clarification in this matter

For and on Behalf of

GSEC Bird Airport Services Private Limited

Authorised Signatory

Sundeep Kr. Jain