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12 June 2017

WITHOUT PREJUDICE

Secretary
Airports Economic Regulatory Authority (AERA) of India
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi 110 003
Email: puja.jindal@aera.gov.in

Dear Ms. Puja,

**SUBJECT: IATA'S RESPONSE TO CONSULTATION PAPER NO. 06/2017-18
DETERMINATION OF AERONAUTICAL TRARRIFFS OF COCHIN INTERNATIONAL AIRPORT
(COK) FOR THE SECOND CONTROL PERIOD**

As the global trade association representing the world's leading airlines, the International Air Transport Association (IATA) is pleased to provide a submission on AERA's consultation paper mentioned above. IATA's membership includes some 275 passenger and cargo airlines comprising 83% of total air traffic and IATA's mission is to represent, lead and serves the airline industry.

IATA appreciates the opportunity for us to comment on the consultation paper. This submission is based on the views expressed by IATA at the stakeholder consultation meeting held on 7 June and additional comments following the meeting.

We would like to specifically request AERA to consider the following:

- It is a great disappointment that AERA has proceeded to adopt the hybrid till approach which will make aeronautical charges more expensive and goes against the fundamental requirements to boost air connectivity as envisaged by the National Civil Aviation Policy 2016 in a sustainable way.
- Proposal No. 1 IATA supports proposals 1.a.-ii and 1.a.iii, as any non-competitive market should be properly regulated. We also support the treatment of Cargo, Ground Handling and Fuel Farm services and Rentals from leasing of space to agencies providing Aeronautical services as Aeronautical revenues.
- Proposal No. 2: Proposal is supported by IATA given the comments provided in earlier consultations on the matter.
- Proposal No. 4 While the proposed asset allocation of asset seems more reasonable than determinations for other airports, we still remain sceptical whether the arrived percentage is the right one, particularly on the treatment of common areas (which are used as much by "aeronautical" and "non-aeronautical" customers). A fairer distribution mechanism would be to allocate such assets on a 50:50 ratio. In any case, we support proposal 4.a.ii for a review of the cost allocation of the new terminal once the operations are commissioned and stabilised.
- Proposal No. 5 The cost control aspect is an issue which AERA should pay attention to as it seems most projects are costing higher than budgeted such as the railway overbridge. In addition, the cost overrun of the commissioning of the new terminal, apron and roads was around Rs 150 crore (from Rs 850 Crores to Rs. 1000 Crores). It was only noted by AERA

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that CIAL has provided major reasons for the increase in cost. There is no clear governance with respect to consultation with stakeholders on such cost overruns. In principle, cost overruns that have not been consulted (and agreed by users in advance) should not be allowed. Otherwise, there is no incentive for the airport to deliver assets in the most efficient manner. We recommend that AERA have mechanism in place to ensure effectiveness in cost control by CIAL (or any other airports under the purview of AERA).

- Proposal No. 5 Regarding the study on the treatment to be given to cost of land, IATA would appreciate a consultative approach with adequate advance notice to provide stakeholders with sufficient time to seek clarification and provide our comments for consideration by AERA.
- Proposal No. 6 Regarding the depreciation study, IATA would appreciate a consultative approach with adequate advance notice to provide stakeholders with sufficient time to seek clarification and provide our comments for consideration by AERA. In the meantime, we support the asset lives proposed by AERA.
- Proposal 7 In addition to the comments provided earlier in asset allocation (which would affect the RAB calculations), it would be essential that any future true ups of capital expenditure are also accompanied with a capital efficiency study. Otherwise, CIAL will not be incentivised to deliver its capital program efficiently (moreover, such analysis should have been done ex-ante and ex-post).
- Proposal No. 8 Commend AERA for the rational decision relating to the following:
 - i. Reducing the employee costs attributed to aeronautical from CIAL's 96.4% to 82%. A comment regarding the staff count for non-aeronautical which seems exceptionally low; only 4 staff for duty free and 3 staff for Golf and Country club operation which either imply a small and insignificant operation or an error in correctly identifying the number of staff correctly.
 - ii. Salary costs growth projection is brought down by AERA as well to a more reasonable level from 50% to 25% in 2017 and thereafter capped at 7% every year instead of 10%. This is a step in the right direction but more can be done. Again, the focus should be on cost control initiatives to do more safely, securely, efficiently and sustainably.
- Proposal No. 9 Commend AERA for recognizing the full profits of wholly owned subsidiary by CIAL for inclusion in the ARR instead of the 25% revenue share arrangement. And the lease rentals of aero services treated as aero revenue e.g. fuel throughput rentals
- Proposal No. 10 The cost of equity return at 14% determined by AERA is still on the high side, especially in the backdrop of consistent CIAL's profitability and issuance of dividends. Additionally, AERA should consider a notional gearing (one that defines an optimal capital structure), rather than using actuals. As well, care must be taken when trueing up the cost of debt, as this practice would not incentivise the airport to manage its finances in the most efficient manner.
- We call on AERA to ensure alignment with ICAO's policy to ensure airport charges are set based on the cost of delivering the services rather than other factors which might not be applicable/relevant when assessing the appropriateness of airport charges.



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- Regarding Quality of Service – Overall benchmark for service quality requirements utilizing the ACIASQ Survey which is essentially a passenger experience survey. There is a need to better capture the service quality feedback/rating from aircraft operators using the airport services/facilities to drive the rebate scheme as well.
- An Airport Service Level Agreement Framework (SLA) with airlines should be recommended to deliver consistent levels of service and promote continuous improvement. This will also allow a process to establish a clear link between airport service standards and user costs. The IATA best practice document for SLA is attached to this submission for your easy reference.

We request that our views expressed above be taken into consideration by your respected agency leading to an objective and rational decision. Please do not hesitate to contact IATA's Country Director for India, Mr. Amitabh Khosla at khoslaa@iata.org or myself if further clarification is needed.

Yours sincerely,

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cc Amitabh Khosla, Country Director - India

