

CIAL/FIN/AERA/FTC

16th march 2020

To

The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative complex,
Safdarjung Airport, New-Delhi-110003

Dear Sir:

SUB: Response to comments of IATA and FIA with regard to the consultation paper no:22/2019-20 dated 5th March'20, in the matter of provision of compensation in lieu of FTC in CIAL -thereof

We are in receipt of the comments of the Federation of Indian Airlines (FIA) and IATA with regard to the consultation paper on the above mentioned subject, which appears to be equivocal ,inexact, and oblique to the positions taken by the airline community on the matter of withdrawal of fuel throughput charges.

On the outset itself we would like to object to the statement that there is an increase in landing charges to the airlines community. The aggregate revenue requirement (ARR) approved by the Authority for the period beginning from 01.04.2016 to 31.03.2021, allowed CIAL to collect fuel throughput charges (FTC) from Oil marketing companies (OMC's) .The OMC's just passed through this fuel throughput charges to airlines in their ATF bills.

Consequent upon introduction of the GST, the Oil marketing companies passed on this fuel throughput charges plus GST to the airlines as a pass through cost for which no input tax credit could be availed by airlines.



Therefore, the airline community approached the Ministry of Civil Aviation for an alternative methodology, which will facilitate availing input tax credit to airline community. Accordingly, MoCA has abolished the FTC and ordered for compensation through increase in other aeronautical charges.

This being the background of the issue, the comments of FIA and IATA had designed their response in such a manner that there is an airport induced increase in the charges levied to airlines. In fact there is no increase in the aeronautical charges to CIAL by the airlines but the proposal is only meant to restructure the existing levies charged by the airport to airlines, which is primarily intended to benefit the airlines to avail additional benefit of GST input tax credit.

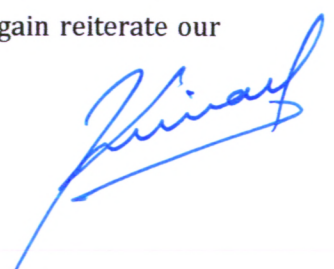
On the contrary, though it was assured that the loss on account of withdrawal of FTC will be compensated to airport operator, the entire loss has not been ensured in the proposed compensation during this control period, which we willingly accepted to forego during the balance period of this control period, for the best interest of Aviation Industry. In effect the restructuring of airline levies at airport by withdrawing FTC and adjusting it partially in the landing charges is meant exclusively for the benefit and interest of the airline community as they are assured of two additional benefits, namely, additional GST input tax credit benefit and reduced overall aeronautical charges payable to airport in the form of single levy of Landing charges against two levies in the form of landing charges and FTC. This being the factual position, there is an attempt to paint a dismal picture on the issue, which will mislead the public and other stakeholders in the Industry. Therefore, we don't have any hesitation to state that, in case airline community still feels it as an increase in the levy of charges payable to the airport operator, we would urge to revert to the original position of levying the FTC and landing charges separately.

b) The views against the specific remarks by IATA .

1) The IATA has requested to defer the increases in airport charges due to outbreak of COVID-19 and consequential disruptions in the Aviation Industry.

CIAL Response.

We appreciate the concern expressed by IATA in this regard. It is a fact that entire Industry is adversely effected due COVID -19 during the months of January, February and March 2020 and there exists a problem with correct prediction on how long virus will remain potent. However, history indicates that these sort of short term disruptions are not going to continue forever. Any how the Authority has not proposed any compensation for the months of January , February and March 2020 even though the FTC was withdrawn w.e.f January 2020 . We again reiterate our



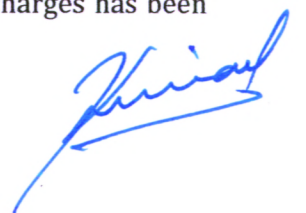
request to allow the compensation w.e.f January itself as not only the airlines, the airport operators have also adversely effected with COVID -19 pandemic. The passengers and air traffic volumes in these months have been decreased substantially whereby reducing the aeronautical incomes. Top of it, non-aero nautical revenues such as duty free revenue have decreased by 50% on month on month basis, revenue shares from commercial licensees have declined and in the meantime all additional expenditures required to combat COVID and associated disruption and restorations are met by the airport operator alone. It is pertinent to state that not only Airline Industry that impacts COVID-19, but all segments of economy and Aviation Industry, including Airports has adversely effected. Needless to say that such temporary disruptions are part of business risks to all and we cannot assume that such temporary disruptions will continue forever. In fact, during the last two years, this airport has faced devastating floods and consequently airport operations and business got disrupted temporarily and we are still in the reviving process by infusing additional capital expenditure projects to the tune of Rs 152 crore, just for future flood mitigation activities. Meantime, airport is now undertaking its mandatory runway recarpeting works for Rs 220 crore, which also caused disruptions in the operations during this year. Too many business disruptions and simultaneous distortions in the approved aeronautical revenues during the control period in the form of withdrawal of FTC etc cannot be absorbed by small companies such as CIAL. If it is an unregulated industry such as Airline, they can adjust the changes in the prices, postponement of refunds and travel dates, even at each customer level to address such rapid changing situations, which is no way possible with a regulated entity with heavy fixed costs. Therefore the concern of IATA seems to be a misplaced one, intended to reap additional benefits from a regulated entity quoting and over emphasizing a reason which is of a temporary phenomenon.

c) The views against the specific remarks by FIA

- a. Response to specific query of FIA with regard to analysis on identification of tariff component for effecting amendments .FIA has submitted that revision of tariffs if any should be made only in the pass through elements of airport charges like UDF, PSF(FC) etc which shall avoid any adverse effect to airline industry.

CIAL Response.

- (i) **Rationale for selecting Landing Charges:** CIAL wishes to state that Fuel throughput charges was not a pass through charge of airlines like PSF and UDF and was required to be factored in its cost of operations. There is no mechanism to ensure that the abolished Fuel throughput charges has been



passed on to the customers, and therefore it is not proper to pass on the compensating charges to the customer, whereby the customer is getting penalized with increased pass through charges without ensuring any reduction in ticket fares on account of Fuel throughput charges abolishment as well as the benefit of enhanced GST input tax benefit is passed on to Passengers. Moreover, passengers no way avail the GST input tax credit as they are the end customer.

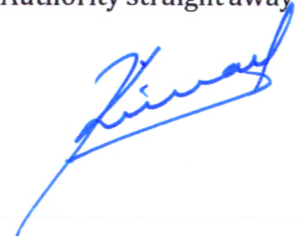
Further, CIAL has evaluated other tariff heads and concluded that landing charges shall be the most suitable tariff head for seeking compensation, as this is the only similar head which takes into consideration the weight of the aircraft and the Air traffic Movements, on which the ATF Fuel throughput charges is directly related. The other charges levied like parking fees, aerobridge charges, X ray inspection charges have no direct relationship with variables used to arrive FTC , which has been forgone.

- (ii) **Compensation by revision of non-aeronautical sources:** The forfeiture of a head of aeronautical revenue in the computed ARR cannot be compensated by non-aeronautical charges. The aeronautical tariff has already been derived considering the non-aero revenue for the control period and is already subsidizing the aeronautical tariffs which is again subject to truing up at the end of the control period. The intervening restructuring of aeronautical charges by after taking into consideration of non-aeronautical incomes, will open a new pandora box as it will destroy the sanctity of tariff determination.

D) Response to specific query of FIA with regard to **conducting a stakeholder's consultation meeting:-**

CIAL Response.

The charges of ATF Fuel throughput charges was withdrawn with immediate effect from 15th January 2020, without finalizing any compensation proposal. Already 2.5 months have elapsed without any compensation. Any further meetings, shall only result in the prolonging the final decision. In fact Ministry of Civil Aviation has conducted several rounds of stakeholders consultation, stretching to months together ,involving Airlines, airport operators, OMC, AERA , legal experts, APAO, FIA , IATA etc before ordering the withdrawal of FTC and compensating it for the airport operator. Considering these facts, it would have been better, if the Authority straight away



issued the compensation direction in this regard as each day of delay causes significant revenue loss to Airports and significant loss of GST input credits and reduction in overall aero charges payable by airlines to airports due to the proposed restructuring.

1. Response to specific query of IATA with regard to **increasing the pass through cost to passengers instead of directly charging the airlines:-**

Reply: CIAL is not levying any User development Fee from passengers. The Fuel throughput charges was not a pass through charge of airlines and was required to be already factored in their cost of operations. The crude oil prices has drastically come down to USD 32 per barrel from the level of USD 110 per barrel, which is expected to bring down the cost of ATF substantially.

Top of it, the abolishment of Fuel throughput charges and benefit of additional GST input tax benefit to airlines and reduced overall aero revenues payable to airports have come into existence. Such changes in the market related costs and regulated costs can be passed on /adjusted in the airline tickets easily by non-regulated entities such as Airlines. Passing on such benefits or costs to individual customers by a regulated entity is not a feasible option and not in the spirit of economic regulation primarily enacted to ensure consistency, transparency and reduced fares to passengers.

In this background, we once again request the Authority to issue the final order in the lines proposed in the consultation paper with effect from 15.01.2020.

Yours Faithfully,

V J Kurien
Managing Director

