

**Comments of FICCI on the AERA Consultation Paper No. 5 / 2010-11
“Economic Regulation of Services Provided for Cargo Facility, Ground
Handling and Supply of Fuel to the Aircraft”(FICCI)**

1) Comments relating Cargo Services

- **Dedicated, self-handling facility:** Worldwide, air express operators have functioned out of their dedicated, self-handling facilities that are intrinsic to the success of their business model. Any forced move to a common-user facility would severely cripple service quality and destroy the business model. Any forced move to a common-user facility would severely cripple service quality and destroy the business model. In the interest of the dependence of numerous industries on air express distribution, and in the interest of trade and commerce, we would urge AERA to include in its scope of regulation of ‘cargo facility’, areas such as this that would have a significant impact on the economic development of the region.
- **Modulation of Charges:** The discussions during the stakeholder meeting implied that any exorbitant charge on lease rentals, for example, would be modulated by a corresponding decrease on aeronautical charges. However, we would like to point out that these facilities require large investments to be made by cargo players to provide their services. Invariably, these facilities are leased out by the airport operator on a short-term, temporary basis, necessitating the costs to be written down over a short period of time.
- Moreover, this leads to relocation of cargo players to alternate facilities and duplicate investments. These investments are not reflected in the till that influences aeronautical revenues. As a result cargo players are subjected to a huge cost burden on account of the large increases in lease rentals as well as our investments in temporary facilities. Therefore it is requested that AERA take into consideration some moderation in effecting reasonableness of these decisions and tariffs as they impact the cost of trade and competitiveness to the end user.

- Certain benchmark rates (AAI tariff with 20% variation) could be fixed for pre-defined service level across the country and any deviation could be negotiated by two parties.
- Common published tariff should be shared with AERA. Understand ceiling of rates already exist at BOM & DEL which is regulated by Airport Operator for ramp handling services.
- Industry has recently gained from liberalization in terms of improved service delivery and much better infrastructure at least at recently built cargo terminals. We are still far away from international service standards and needs to gain much better service level to make a benchmark with top ten airports in the world. We are keen to watch service levels with price tag than just the cost to avoid going back to old days.
- Carriers are keen to determining or enforcing quality from monopoly service provider and we would like to see an external mechanism which will help us redress such problems, rather than just the financial regulation.
- It has been submitted that by capping the yield might lead to services provided, therefore ceiling alone is not good enough and it should come with service level provided. Industry would prefer to have light touch approach where there are two or more service providers. Any over regulation probably will lead to stifle any further investment which may affect further development.
- Contract with service provider is generally signed for three years and this should also be considered.
- In case of monopoly or if two players are there, we as carrier should have the possibility to approach AERA for intervention and examine the situation, if required.

Other Considerations

- Airports charges must not be regulated in isolation from macro-economic realities.
- It needs to be recognized that trade and commerce play a crucial role in economic development. Therefore, the mandate of an airport should be a dual one for the facilitation of both passengers and goods.
- Air Express services are a core element of the transportation and communications infrastructure which is essential to this country's global trading activities. Consequently, their efficiency, reliability, scope and cost-effectiveness have a direct impact on national competitiveness.
- Air Express service providers operate some of the largest fleet of freighter aircraft worldwide, and use hundreds of airports daily as key hubs and links in their highly integrated global transportation and delivery network to support business and commerce.
- Alternate modes of transportation or airports are not an option for the air express industry. While some express operators may have set up their hubs away from the busiest airports to facilitate their hub and spoke air network, they still command significant presence at all commercially active airports. **Air Express services must co-exist with business and commerce and cannot be relegated to isolated airports.**
- The cost of air services, including airport charges account for a significant proportion of costs for Air Express operators. While individual can influence costs under their direct control, they are far less able to do so for a monopoly infrastructure such as an airport. Consequently operators are largely dependent on airports for their efficiency and cost effectiveness and therefore, their operational competitiveness.
- Facilities for passengers are in stark contrast to those required for cargo. While substantial investments are made for the comfort of passengers, Air Express operators like us are allocated land in which to construct our own

facility, or facilities that have been in existence for decades without any significant investment. Charges should therefore for decades without any significant investment. Changes should therefore be objectively justified and proportional.

2) Comments relating ground handling at airports

Page	Item	Comment
2	3. c)	1. Contracts are often concluded over a period of more than one year. Any review of tariffs should ensure that contracts concluded in prior years will not be invalidated by annual tariff reviews.
	3. d)	2. Light touch regulation is to be welcome. Contracts are often concluded over a period of more than one year. Any review of tariffs should ensure that contracts concluded in prior years will not be invalidated by annual tariff reviews.
	3. e)	3. This suggests that although tariffs will be proposed for a period of 5 years, they will be fixed annually. Any review of tariffs should ensure that contracts concluded in prior years will not be invalidated by annual tariff reviews.
	3. f)	4. Such payments should include any up-front "safety deposits" service providers may have to make as these are likely to be non-interest bearing and as such constitute dead capital for the service provider.
	3. g)	5. In smaller airports where there is a smaller number of competing service providers, the quality of service may be compromised due to a lack of competition, despite service level agreements. In such cases, the regulator may wish to review this approach.
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		agreements. In such cases, the regulator may wish to review this approach.
<i>1. Draft of "The Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2010".</i>		
7	3.4	7. Price cap regulation has the potential disadvantage that it may not take sufficient account of dynamic input costs. As a result a price cap may undermine any legitimate profit margins of the operator. A more market oriented approach aimed at preventing overcharging and cartelisation should be adopted.
8	3.7	8. This could mean that you have tariff disparity between the "new" and the "old" Service Providers if they are not submitted to the same regulatory control.
8	3.8	9. In the event that several service providers cease to provide services the regulator should investigate the reasons for this development. In the event that the regulatory formula applied has played a role in rendering service provision economically non-feasible the formula should be amended in a defined time-bound manner.
8-10	4.1 – 4.3	10. The Materiality Index for all three items: Aircraft Movements (5%); Cargo Volumes (2.5%) and International Ground Handling Volumes (5%) seem unreasonably low given that only a small number of airports handle most cargo and international movements. Indices should be increased to 7.5%, 5% and 7.5% for the respective categories to reflect materiality.
10	5.1	11. The regulator should propose which measures it would introduce to avoid cartelisation in the event of a "non-competitive" situation at a major airport.
50	10.2	12. Involvement of stakeholders is clearly important and desirable for both determination of charges as well as the level and quality

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		<p>of services on offer.</p> <p>However, in order to make a stakeholder consultation exercise effective and efficient, it should:</p> <ul style="list-style-type: none"> • be time-bound • follow a defined process • provide for a mediation mechanism in case no mutually-acceptable solutions are arrived at <p>AERA should define the time-lines as well as the stages/elements of the consultation process according to best practice principles. It should also either provide the mediation mechanism directly or outline the framework for such a mechanism.</p>
<i>Appendix I</i>		
51	AI.1.3	13. AERA should provide a template for the Multi-Year Tariff Proposal in order to ensure easy comparability and consistency of submitted proposals by service providers in form, content and structure.
52	AI.2.4.2	14. AERA should provide a template for the Service Provider Business Plan in order to ensure easy comparability and consistency of submitted proposals by service providers in form, content and structure.
	AI.3	11. <i>see comment no. 10 above</i>
58	AI.4.3.5	12. AERA should provide a template for the 10 year Capital Expenditure Plan in order to ensure easy comparability and consistency of submitted proposals by service providers in form, content and structure.
64	AI.5.1 – 5.3	13. AERA should provide templates for the 10 year Historical Volumes and Traffic Forecast Model in order to ensure easy comparability and consistency of submitted proposals by service

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		providers in form, content and structure.
<i>Appendix II</i>		
68	All.1.3	14. ATMs may not be an accurate predictor for materiality of fuel supply at an airport. ATMs may be dependent on several factors other than demand such as traffic mix. A large number of small and/or GA aircraft could still amount to considerable ATMs which would not necessarily lead to substantial fuel consumption volumes. A better indicator would be fuel throughputs measured in metric tons, kilo litres or some other suitable unit of measurement.

Other Comments

- The calculations of Aggregate Revenue Required (regulated revenues) are based on the single-till model. Airport developers have pointed out that it's an unfavorable from an investment perspective. A hybrid or a dual-till model may be more suitable.

- The yield from second year onwards is determined based on Previous Year's Yield $\times (1 + \text{WPI} - X)$, where X is % determined by Authority for improving efficiency. This is not favorable in calculating the future yield – why restrict growth when yield is already restricted?
 - a. X is an unknown number to the service providers, and they might not be able to estimate the costs for the next year onwards (since it changes every year)
 - b. The paper says the tariff will be determined based on current rates, ARR and price path. Hence if ARR requires more increase in prices y-o-y than WPI, then the service provider should be allowed to increase the tariff accordingly.

- Should growth estimates, in reaching the targeted ARR, be based on NPV of the ARR or the WPI? This is unclear.
- Service Provider Business Plan for a period of five years should be adequate for the Multi-year Tariff Proposal therefore the requirement for the 10 year Business Plan may kindly be considered for replacing with the five year Business Plan (Appendix 1)
- Market price escalation should also be considered so that adequate numbers for ARR and operating cost can be calculated correctly
- Accelerated depreciation is to be considered for airport related plant and buildings.
- It has been submitted that the computing efficiencies in the document is very qualitative, and the criteria to determine this are very ambiguous, which makes computing those efficiencies very difficult (i.e. efficiency factors applicable to other utilities in the country)
- Also, enforcing the yield formula would make Price per unit very volatile. The increase in price would not be favorable by the public or the airlines.