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May 24, 2023

To,  
The Chairperson,  
Airports Economic Regulatory Authority,  
AERA Building, Administrative Complex,  
Safdarjung Airport,  
New Delhi - 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar Ji

**Subject: Response to the AERA Consultation Paper No. 02/2023-24 dated May 03, 2023 on determination of tariff for Ground Handling Services for M/s Celebi Airport Services India Private Limited (CASIPL) at Manohar International Airport, MOPA, Goa for the First Control Period (FY 2023-24 to FY 2027-28)**

Dear Sir,

We write in response to the Consultation Paper No. 02/2023-24 issued on May 03, 2023 by the Airports Economic Regulatory Authority of India ("AERA" or "Authority") in the matter of determination of tariff for Ground Handling Services for M/s Celebi Airport Services India Private Limited (CASIPL) at Manohar International Airport, MOPA, Goa for the First Control Period (FY 2023-24 to FY 2027-28) ("Consultation Paper" or "CP").

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper. We also would like to draw the attention of the Authority to media reports on an Indian domestic airline commencing insolvency proceedings, which may have been caused in part by the effect of the COVID-19 pandemic on the aviation and high tariff structure, amongst other reasons. Thus we request the Authority to take the impact of COVID-19 and high tariffs into consideration while determining the final tariffs.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been adversely impacted due to significant headwinds, including travel and fare restrictions during COVID-19, increase in prices of Aviation Turbine Fuel (ATF) and fluctuation in foreign exchange etc.

While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 and subsequent emerging variants of COVID-19, as well as the geo-political instability caused due to the Russian – Ukrainian conflict which have resulted in adverse impact on global supply-chains, increase in

inflation, triggered increased interest rates, devaluation of Rupee, decrease in consumer spending as well as looming recession fears and job cuts have again impacted the operations to a certain extent and resultantly prolonged the process of financial recovery.

It appears as per the recent industry outlook reports issued by CAPA, Indian airlines are estimated to make a loss of approx. USD 1.4-1.7 billion in the fiscal year FY 23. It also appears from the industry reports that the traffic recovery (number of flights and passengers) would take some more time for airline operations to reach pre COVID-19 levels. In the current situation, airlines in India are staring at significant losses and with limited financial support from the Government, airlines are constrained to implement severe cost control measures to sustain their operations. On the other hand, the same report mentions that Indian airports are expected to report significant profits in the region of USD 420 million for the FY23.

In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines.

In this regard, we also humbly request AERA to not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

Without prejudice to the above, and as desired by AERA, please find below our recommendations/ comments on the Consultation Paper:

**1. Review of Tendering Process**

**License Agreements (1.2 of the CP):**

Authority may kindly note that "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users." The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner."

It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination

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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.

Sir, as this is particularly a period of economic difficulty for airlines, AERA is humbly requested to ensure that Airport Operator does not take the decision to award concession agreements solely on the revenue share being offered. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost, as envisioned in the abovementioned guiding principle.

**2. Aircraft Traffic**  
(3.1 of the CP):

It is submitted that while predicting Aircraft Traffic, it may be noted that recent trends during abnormal times of COVID -19 may not show similar trends in the future after normalization of operations, and thus should not be linearly extrapolated for projecting future volumes.

Thus, is submitted that at this point in time, it may not be realistic to assess the Aircraft Traffic and therefore it is requested that Authority may rationalize and true up the actual volumes during the 2nd Control Period, when a clearer picture emerges, especially since CASIPL is a new entrant with no track record at this station.

In addition, as this airport has the potential for high traffic volumes due to its strategic location and popular vacation destination from all over the world, we request AERA to conduct an independent expert study for Aircraft Traffic projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act).

**3. Deferment of Capital Expenditure**

Stoppage of non-safety/security related capital expenditure (Refer 4.1 & 4.2,4.7 and Table 3 & 4 of the CP, along with Table 2 and 3.3 of the CP):

As mentioned above, it may take some more time for the flight operations to reach to its pre COVID-19 peak levels. In this situation, as Manohar International Airport is a new greenfield airport and CASIPL has commenced its operation at this airport from 5th Jan 2023, it is likely that it would take some time for the airport and CASIPL reach higher traffic levels, and thus it is unlikely that all the capex equipment as proposed would be required, unless as a replacement for damaged/worn-out equipment, which in itself is unlikely to happen in the First Control Period itself. In order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by CASIPL should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.

It is humbly submitted that the proposed Y-o-Y hike may be a bit premature as it would be possible to gauge only in the last year of 1st Control Period (2027-28) whether significant procurement of latest proposed CAPEX items has progressed, as proposed in the CP. Thus, as the actual requirement and its actual impact would only be evident in the last year of 1st control period (2027-28), Authority is humbly requested that the proposed tariff be kept frozen during the 1<sup>st</sup> Control Period and the Y-o-Y hike be deferred to the 2nd Control Period based on ground realities at that time.

Without prejudice to the above, in case CASIPL 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. Similarly, if any proposed Capex projects can be deferred from the First Control Period to the Second Control Period, same should be considered by AERA.

#### **4. Abolishment of Royalty Charges/ Concession Fee**

Operating & Maintenance Expenditure (5.2, 5.4 (C) and Table 5 and 6 of the CP)

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception that service providers have no incentive to reduce their expenses, as most of any such increase would be passed on to the airlines/stakeholders through the tariff determination mechanism process and indirectly airlines would 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.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the airport operator under various headings without any underlying services. These charges are mostly passed on to the airlines by the airport operator or other services providers. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

We humbly submit the following:

- i. The rates of royalty (concession fees) at Manohar International Airport, MOPA, Goa as mentioned in the Consultation Paper by CASIPL for Ground Handling Services is as high as 30.5% of Revenue to the Airport Operator in some case.
- ii. In this regard, kindly refer to the submission of Federation of Indian Airlines (FIA) to AERA dated 30th July 2021 in response to AERA consultation paper No. 11/2021-22 dated 2

July, 2021 for determination of aeronautical tariffs in respect of Rajiv Gandhi International Airport, Shamshabad, Hyderabad for the Third Control Period. In this submission, FIA had submitted that the royalty charges are passed on to the airlines by the service providers, without any underlying services, and further, that it may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. FIA had requested in the afore mentioned consultation paper to abolish such royalty which may be included in any of the cost items - aeronautical and non –aeronautical.

- iii. In repose to the above mentioned submission by FIA, AERA had mentioned in the tariff order No. 12/2021-22 dated 31st August 2021 that the Authority had noted FIA's comments on royalty and cargo tariff and would take the suggestions into account while determining the said tariff for the Independent Service Provider.
- iv. Accordingly, in response to the consultation paper No. 21/ 2021-22 dated 14/10/ 2021 for determination of tariff for the Third control period (FY 2021-22 to FY 2025-26) in respect of M/s Globeground India Pvt. Ltd. (GGIPL) for providing ground handling services at RGIAL, SpiceJet in its response dated 28 October 2021 to the said consultation paper had submitted that 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. SpiceJet had further reiterated and urged Authority to abolish such royalty (24% in the case of GGIPL) which may be included in any of the cost items.
- v. However, the Authority had in its tariff order no. 31/2021-22 dated 23rd December 2021 noted that it considers the process of "Award of Contract" as non-regulatory in nature and is of the view that all such issues, including royalty share to Airport Operators, may be taken up by the Stakeholders with the Service Providers/Airport Operators in appropriate forums.
- vi. Similar observations have been made by the Authority in other consultation paper for determination of aeronautical tariff (example Ahmedabad tariff Order No. 40/2022-23 dated 18th January 2023, in reference to consultation paper number No 10/2022-23 dated 20th October, 2022), wherein Authority has noted that the Authority has a separate tariff determination process for service providers providing Cargo, Ground Handling and Fuel Supply to aircraft where the royalty charges are addressed alongside a rigorous Stakeholders' consultation process.
- vii. However, when the issue of royalty is taken up at the time of tariff determination process for service providers providing Cargo, Ground Handling etc., Authority has noted (refer tariff order 32/2022-23 dated 29<sup>th</sup> December 2023 in regard to determination of tariff for cargo handling services for M/s CDCTM at IGIAL) that the Concession Fee paid by the ISP to the Airport Operator is as per the Concession Agreement executed between the Service Provider and the Airport Operator, and further that the Authority was of the view that bidding process to award such contracts, based on which ISP pays Revenue Share to Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.

viii. Thus it is observed that while Authority mentions that it has noted comments on royalty and would take the suggestions into account while determining the tariffs for independent service providers like CGF etc., at the time of issuing that tariff order, the Authority decided that:

- a. Royalty is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.
- b. this is a matter between the Independent Service Providers and the Airport Operator as per their agreement and that this is non-regulatory matter in nature.

Sir, it is humbly requested that royalty charges may please be abolished, whether be it for aeronautical and non – aeronautical services, as royalty when allowed by AERA as a fundamental concept on aero charges becomes an allowable charge, the concept of which is then extended by non-aero service providers like in-flight caterers, etc. and applied on airlines and drives up the cost of the airlines, These charges are mostly passed on to the airlines by the service provider without any underlying benefits, which is against the preamble of the National Civil Aviation Policy 2016 for increasing efficiency of airlines and reducing cost. Thus we once again humbly submit and urge AERA to abolish such royalty which may be included in any of the cost items

#### **5. Operational Expenditure – Drastic Cost Cutting**

Operating & Maintenance Expenditure (Refer 5.2, 5.3,5.4 and Table 5 & 6 of CP)

It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. It may also be noted that cost incurred by CASIPL impacts the airlines, as such cost is passed through or borne mostly by the airlines. In order to ensure that there is no adverse impact/increase in the tariff, we request AERA to kindly put on hold any increase in operational expenditure by CASIPL not related to safety or security. Further, we submit that:

- (i) Payroll Costs: The proposed Y-o-Y increase in the Payroll Cost appear to be exorbitant. It is requested that the same may please not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers.
- (ii) Repair and Maintenance Costs: The proposed Y-o-Y increase in the Repairs and Maintenance Cost also appear to be exorbitant. The Y-o-Y increase may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers, as the maintenance cost in the First Control period would also be significantly lower as compared to the second and third control periods due to consideration of warranty on the new equipment during the First Control period.
- (iii) Utility & Outsourcing Costs: The proposed Y-o-Y increase in the Utility & Outsourcing Costs also appear to be exorbitant, and it is requested that the same may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.



**6. Tariff:**

(i) Annexure III of the CP

It is noted that the proposed tariffs are exorbitantly high, the comparative tariffs of a few items are exhibited below as illustrations. Please note that these are as examples only for one year (2023-24), while there may be several cases across the various years and category of items. Authority is requested to kindly conduct a thorough review of the proposed tariffs please, before arriving at a decision.

It is also noted that in several places in the Annexure, the Units are either erroneous (as in the case of Blue and White collared staff – the Unit rates are mentioned as hourly rates, instead of the Unit being an 8 hour rate) or not specific (as in the case of Fork Lift - Tonnage not specified, or in case of Ground Power Unit where the KV is not specified. Refer the Units Please note that these are as examples only for one year (2023-24), while there may be several cases across the various years and category of Units. Authority is requested to kindly conduct a thorough review of the proposed Units please, before arriving at a decision.

All figs in Rs.

Tariff for the Year 2023-24 (Dom. & Intl. Scheduled Flights)						
S.N	Services	Station	Service Provider	Unit	Dom	Intl.
1	Air Cooling Unit	GOX	CASIPL	Per Hour	24,265	37,330
		GOI	BASPL	Per Hour	19,773	31,254
		AMD	GSEC	Per Hour	19,403	30,618
		AMD*	CGHIPL	Per Hour	25,478	39,197
2	Air Start Unit	GOX	CASIPL	Per Start	15,089	23,214
		GOI	BASPL	Per Start	14,484	22,887
		AMD	GSEC	Per Start	14,209	22,383
		AMD	CGHIPL	Per Start	13,533	21,335
3	Unaccompanied Minor	GOX	CASIPL	Per UM	4,225	6,500
		GOI	BASPL	Per UM	2,708	4,279
		AMD	GSEC	Per UM	2,656	4,129
		AMD*	CGHIPL	Per UM	2,539	3,906
4	Blue Collar Staff	GOX**	CASIPL	Per staff per hour	2,262	3,480
		GOI	BASPL	Per staff per 8 hour	1,998	3,157
		AMD	GSEC	Per staff per 8 hour	1,960	3,069
		AMD*	CGHIPL	Per staff per hour	1,867	2,920

5	White Collar Staff	GOX**	CASIPL	Per staff per hour	3,221	4,955
		GOI	BASPL	Per staff per 8 hours	2,996	4,736
		AMD	GSEC	Per staff per 8 hours	2,940	4,641
		AMD*	CGHIPL	Per staff per hour	2,800	4,417
6	Passenger Flight Code B	GOX**	CASIPL	Full Services	27,750	105,983
		AMD	GSEC	Full Services	21,753	125,939
		AMD*	CGHIPL	Full Services	20,100	115,000
7	Passenger Flight Code C	GOX	CASIPL	Full Services	39,900	171,300
		AMD	GSEC	Full Services	34,347	202,647
		AMD*	CGHIPL	Full Services	31,500	183,750
8	Passenger Flight Code D	GOX	CASIPL	Full Services	89,300	229,408
		AMD	GSEC	Full Services	54,097	233,222
		AMD*	CGHIPL	Full Services	48,300	210,250
9	Passenger Flight Code E	GOX	CASIPL	Full Services	120,900	321,171
		AMD	GSEC	Full Services	122,619	357,037
		AMD*	CGHIPL	Full Services	109,200	317,500

AMD\*: Rates as per the Ad hoc Order No. 36/22-23, extended till 30.09.2023. Order awaited for CP 14/2022-23.

GOX\*\*: Rates mentioned in the Annexure III for Blue and White Collar staff are per hour, which is assumed to be erroneous and are displayed as to be per 8 Hours in above table.

It may be particularly noted that while it is mentioned that the rates in Annexure III are the maximum rates that may be charged, it is not been explained or reasoned by the Authority why the maximum rates should be allowed to be higher than other comparable airports.

As a side note, please refer the Ad Hoc Order Number 36/2022-23 regarding the Units mentioned for Blue and White Collar staff with regard to AMD, Authority may like to amend



the same as the Units mentioned therein are "per staff per Hour" instead of "Per staff/8 hour", which is also the case on the CP 14/2-22-23, the order for which is yet awaited.  
(ii) Refer 6.1,6.2, 6.3,6.4,6.5,6.8, 6.11, 6.12, 6.13, 6.14 and Table 7,8 & 9 of the CP

We humbly request AERA to kindly consider our submission as mentioned above, and review the proposed tariffs in light of the same, as the proposed rates of tariff are very high in the back drop of COVID-19, looming recessionary fears as well as recent collapse of an airline which may be in part due to high tariffs.

It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 recovery of aviation sector. Customers of airlines have limited capacity to pay for the Air Fares, and when the cost of travel goes up (caused in part due to high service provider charges), the air traffic goes down, leading to further losses and financial crisis for airlines.

In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines. In this regard, we also humbly request AERA to not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period, given the scenario described 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 airlines, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

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

Thanking you in advance,

Yours Truly,  
**For SpiceJet Limited**

  
**Suryavir Singh Bisht**  
**Sr. General Manager – Regulatory Affairs**

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