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1522/dec/10
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Dated: 15th September 2010

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

Sub: Submission of our comments on the white paper on Economic Regulation of Service Provided for Cargo Facility, Ground handling and Supply of Fuel to the Aircraft

Dear Sir,

This has reference to the White Paper on Economic Regulation of Service Provided for Cargo Facility, Ground handling and Supply of Fuel to the Aircraft.

I have the pleasure to submit our response to the said white paper on behalf of Cargo Service Center India Pvt Ltd, hereinafter referred to "CSC", a cargo handling company which has constructed on DBOT basis the Second Center for Perishable Cargo at Mumbai airport pursuant to a concession awarded by Mumbai International Airport to provide handling services for Perishable export cargo. The company has also promoted Delhi Cargo Service Center Pvt Ltd (hereinafter referred to "DCSC") to implement the cargo handling concession awarded by Delhi International Airport to construct on DBOT to provide full range of cargo handling services for all types of cargo at Delhi airport. Both these companies are directly affected by the regulation being proposed by AERA.

Our response is enclosed with this letter.

Kindly acknowledge the receipt of this letter and enclosure.

Warm regards,

Yours sincerely,

Radharamanan Panicker
Group CEO & Director- Delhi Cargo Service Center Pvt Ltd.

Enclosed: Our response to the white on Economic Regulation of Service providers at Airport

44/10/AERA
15/9/2010

9/22
15/9/2010
Smt (RPS)

16/9/10
Smt (RPS)
Pls fwd to PwC



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Response to
Consultation Paper No.5/2010-11
of
Airport Economic Regulatory Authority of India
on
Economic Regulatory Services Provided for
Cargo Facility,
Ground Handling &
Supply of Fuel to the Aircraft

15th, September 2010



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Executive Summary

Airports Economy Regulatory Authority (AERA) has issued consultation paper no. 5 per Section 15 of the AERA Act 2008, for Economic Regulation of Services provided for Cargo facility, Ground handling and Supply of Fuel to the Aircraft.

Cargo Service Center India Pvt Ltd, hereinafter referred to "CSC", a cargo handling company which has constructed on DBOT basis the Second Center for Perishable Cargo at Mumbai airport pursuant to a concession awarded by Mumbai International Airport to provide handling services for Perishable export cargo. The company has also promoted Delhi Cargo Service Center Pvt Ltd (hereinafter referred to "DCSC") to implement the cargo handling concession awarded by Delhi International Airport to construct on DBOT to provide full range of cargo handling services for all types of cargo at Delhi airport. Both these companies are directly affected by the regulation being proposed by AERA. This response paper to the said consultation paper is on behalf of both the companies CSC and DCSC.

At the onset we thank the Authority for going through this consultative process for determining of various regulatory aspect of the proposed tariff regulation and giving us the opportunity to express our views on the same.

Our company has reviewed the consultation paper including areas such as AERA's philosophical approach, concept of materiality, definition of competition and technical mechanism behind the tariff regulation. Our position on each of these has been articulated in this reply document.

When CSC bid for the various projects in Mumbai and Delhi, it was clear to us based on the provisions of OMDA that these airports have signed with Airport Authorities of India and Government of India, that cargo handling service and terminal operation were not under the preview of AERA because this activity was not defined as Non-Aeronautical service for Mumbai and Delhi in the said OMDA. It was on basis of this understanding that our services are not regulated at this airport since AERA is only regulating aeronautical services, that our company made the investment in these projects. Any change in the existing market conditions will certainly have detrimental effect on our investment and investor and lender sentiments in our project, because the risk is pretty. Both these project are long gestation projects.

Further it has clearly stated by the Chairman of AERA in the public consultative process that due to the said OMDA, Mumbai and Delhi airports are currently out of the preview of the regulation and AERA will respect the terms of said agreement. If



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that is so, how can cargo handling be regulated at these airports and considered under the proposed tariff regulation. Per OMDA the Mumbai and Delhi Airport Operators and therefore by extension the various service providers within these airports are free to fix tariff for non aeronautical services.

At a time when India is opening up and reforms are the order of the day, we feel that proposed tariff regulation is very harmful to the development of the cargo handling industry, which has not seen any development in last 15 to 20 years in India. The effect of this lack of development is clearly in that the Indian export and import trade is severally affected as compared to other countries where rapid stride have been made in attracting massive investment in creating effective and efficient logistics infrastructure. It is our view that such heavy regulatory price regime will scare investment which is sorely needed if Indian airports are to be compete with airports like Dubai, Singapore and Hongkong to attract cargo to their airports.

It is also understood from our discussion with our stakeholders- the airlines and cargo forwarders that their concern is not price but poor infrastructure and even poor service standards in most of the Indian airports. Price regulation rather than help eliminate those problems will aggravate them because there will be no incentive or encouragement to either make investment or improve quality of service or provide value added which is essential if overall cost in the supply chain has to be come down.

On reading of the AERA Act, the definition of "**Service provider**" means any person who provides aeronautical services and is eligible to levy and charge user development fees from the embarking passengers at any airport and includes the authority which manages the airport; Cargo handler do not levy user development fees and is thus not covered under this definition therefore AERA cannot regulate the handler.

Further it is our submission that the whole approach of tariff of cargo handling is Discriminatory to the Cargo handling service providers (CHSP). Cargo handling is one of the small part of the whole air cargo supply chain starting from Shipper and ending with consignee. It is highly irregular to regulate only one part of the chain while the other and large part of the chain is left out of the regulatory framework. We are integral part of the airlines cargo department and or the cargo airlines since our agreement with them is that of an agent rather as independent party. As per the standard ground handling agreement that any handler signs with the airlines, one of the key and important clause is that the handlers become the authorized representative of the airlines in the airport we serve them and thus represent them in



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every forum be it customs, security authorities or any dealings with other third parties.

Any price regulation has to have a purpose. The purpose is to protect the interest of consumers in the monopolistic environment in which the service provider or manufacturer has an opportunity to make abnormal profit. And who are these consumers. They are ordinary individual who have no resources to take on the might of this monopolistic operator or at times not knowledgeable to judge issues. Consumer as per the Consumer Act of India has been defined as any individual human who has been sold a product or service. The act very specifically excludes any corporate body as consumer. It also excludes those individual who buy services to sell them to other parties. This is a seminal piece of legislation enacted by the Parliament to protect the interest of the consumers in this country. This Act should be taken into consideration by AERA to determine whether any purpose will be served by seeking to tariff regulate the business of cargo handlers and cargo terminal operators, while excluding the airlines on airside and forwarders/shippers on the landside, both of which are corporate bodies and therefore need no regulatory support to protect. Further it has been our experience that while the cargo handlers have maintained price of handling over a fairly large period of time, there is no evidence to suggest that any price reduction by the handlers have been passed on by the airlines or the forwarders to the customers. On the other hand, despite maintaining the handling price, it has not stopped the customers of such services namely the airlines from raising their freight related prices to their customers.

The issue therefore is not of price but poor infrastructure and service level. Both of these objectives will not be achieved if the AERA tries to regulate the price and will be counter-productive. No companies will want to make huge investment in creating the infrastructure with such uncertainty of yearly yield. Further it maybe informed nowhere in the world are the cargo handlers asked to invest in infrastructure in form of building. The building is given on lease by the airport operators and the handling companies are required to outfit it with the required handling equipments and system as suits their business model and offering to market. By making investing in building which is almost 2/3 cost of the whole cargo handling infrastructure, the cargo handling companies who are not builders, are taking a huge business risk.

Therefore it is our submission and recommendation not to Regulate the tariff of the Cargo handlers. At best AERA can fix an upper band of tariff for basic handling service at various airports, the basis for which could be the Airport Authority of India handling tariff plus yearly inflation and additional factor due to better infrastructure and service standard say a 30% mark-up..

The detailed response to the various aspects of the discussion papers now follows.



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1. Competition Assessment:

As can be seen from the data given below, none of the Indian airport at the current juncture can be rated to be anywhere near the world top 20 cargo airports of the world.

ICAO has published the 2009 cargo volumes of the major airports of the world.

Rank	Airport	Code (IATA/ICAO)	Total Cargo (Metric Tonnes)
1.	Memphis International Airport	MEM/KMEM	3,697,054
2.	Hong Kong International Airport	HKG/VHHH	3,385,313
3.	Shanghai Pudong International Airport	PVG/ZSPD	2,543,394
4.	Incheon International Airport	ICN/RKSI	2,313,001
5.	Paris-Charles de Gaulle Airport	CDG/LFPG	2,054,515
6.	Ted Stevens Anchorage International Airport	ANC/PANC	1,994,629
7.	Louisville International Airport	SDF/KSDF	1,949,528
8.	Dubai International Airport	DXB/OMDB	1,927,520
9.	Frankfurt Airport	FRA/EDDF	1,887,686
10.	Narita International Airport	NRT/RJAA	1,851,972
11.	Singapore Changi Airport	SIN/WSSS	1,660,724
12.	Miami International Airport	MIA/KMIA	1,557,401
13.	Los Angeles International Airport	LAX/KLAX	1,509,326
14.	Beijing Capital International Airport	PEK/ZBAA	1,475,649
15.	Taiwan Taoyuan International Airport	TPE/RCTP	1,358,304
16.	London Heathrow Airport	LHR/EGLL	1,349,571
17.	Amsterdam Airport Schiphol	AMS/EHAM	1,317,120



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18.	 John F. Kennedy International Airport	JFK/KJFK	1,144,894
19.	 O'Hare International Airport	ORD/KORD	1,047,917
20.	 Suvarnabhumi Airport	BKK/VTBS	1,045,194
21.	 Guangzhou Baiyun International Airport	CAN/ZGGG	955,270
22.	 Indianapolis International Airport	IND/KIND	944,805
23.	 Newark Liberty International Airport	EWR/KEWR	779,642
24.	 Tokyo International Airport	HND/RJTT	779,118
25.	 Luxembourg-Findel Airport	LUX/ELLX	628,667

Similarly AERA in its consultation has given the cargo data (source: AAI) of Indian entities as under:

1	Mumbai	582,636
2	Delhi	497,386
3	Chennai	322,675
4	Bangalore	174,644
5	Kolkata	106,585
6	Hyderabad	66,459
7	Cochin	40,636
8	Trivandrum	33,150
9	Ahmedabad	22,675
10	Pune	17,845
11	Calicut	17,500
12	Jaipur	6,209
13	Guwahati	5,037
14	Goa	4,377



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Further India's share in the world trade is less than 2 %.

India share in world trade

	Export	Import	Total
Total World	12147	12385	24532
India	155	244	399

Percentage	1.28%	1.97%	1.63%
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(Source WTO: 2010 PRESS RELEASES/PRESS/598/26 March 2010)

Hongkong (No.2), Seoul (4), Dubai (8), Singapore (11), Kuala Lumpur all have either two or only one handler/s at their airport, with volume almost double that of any single Indian airport. Not only that at most of these airports, the top handler is invariably the most dominant handler having almost 70% + market share, squeezing out the small handler either by sheer market share or size of their operation. Yet the government or aviation authority have not tariff regulated the cargo handlers in any of these airports. At best the government had tried to induce more competition by adding one more handlers. Prime example of this is Singapore, but that experiment failed miserably when the third appointed cargo handler (Swissport), closed shop in March 2009 after just 2 years of being in business because it couldn't break even or take even 10% of the total market share.

None of the airports in India have volumes which can justify having more than two cargo terminal operators.

Therefore it is a fallacious argument that the competitive landscape can be determined by number of handlers within one service area. What needs to be seen is how the various factors works toward keeping the prices competitive not just in absolute numbers or within the same airport, but also in comparison with other competing airports. Cargo handling business is very tricky & investment decision taken today has to be made for a plan period of 15 to 20 years. It is difficult to estimate & project by any degree of reliability cargo volume growth over such a large cycle period. Air cargo industry experiences tremendous trade shocks even with unrelated trade events the way SARS did tremendously in a negative manner. Such events can be highly detrimental to the profitability & financial health of cargo handling & warehouse operators. At the same time there are violent upswing in cargo severely impacting the ability of cargo handler to respond to such a surge in cargo if he doesn't have the capacity as was seen in the recent past at Delhi airport. It means that while competition is restricted to two or three players each operator



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have to create capacity not for next three years but for next twenty five years taking great risk which is un quantified.

It is also fallacious argument that just because the selection of cargo handlers at Delhi, Mumbai, Bangalore were done on basis of who pays the highest revenue share to the airport operators, therefore there cannot be competition with two players. IN case of Delhi airport, it maybe pointed that one handling company had the benefit of taking over an existing cargo facility therefore offered a higher revenue share, while the other had to build a new cargo facility and work towards attracting clients from the existing operators when their facility gets ready so offered a lower revenue share. Each of these handlers had therefore different operating conditions, business models and service offerings, and when their business plan had to take into account not only the competition but had to deal with condition that handling rates have to be competitive compared to the other airports. The last condition is because cargo is not just generated out of the hinterland of Delhi, but has to be attracted to Delhi airport from other airports.

IN this regard the example of our experience in running the Center for Perishable Cargo at Delhi in a monopolistic situation is worth repeating. Delhi airport when we took over didn't have more than 3500 MT of perishable cargo. IN order to make the operation viable, we had to attract cargo from other airports like Mumbai, Hyderabad and Ahmedabad. This was done by reducing the terminal processing storage (TSP) by more than 60% (from the AAI notified tariff of Rs. 2.30 per kg to Rs.1.5 per kg). The volume grew to 27000MT per year in 8 years because all the Pharma cargo which is considered perishable was diverted from Mumbai and Hyderabad airport to Delhi. The reason was price and service quality.

So the cargo handlers don't compete amongst each other, but also amongst other airports in the country. With better road conditions thanks to quadrilateral road project, road connectivity has dramatically improved which allows such movement of cargo.

Another very important element to understand the competitive landscape is the buying power in the industry. Our industry faces a very strong buyer's power through the airlines associations both for domestic and international airlines, and the forwarders community through ACCAI and DACCAI. These are very strong lobbies, which can bulldoze any handling service providers. The buyer is so strong that even in the monopolistic situation, the cargo terminal operators like AAI or DIAL or MIAL have never been able to increase the price randomly and without discussion. Any increase has been measured and can be considered to be always lower than the rate of inflation as measured by Consumer price index, an apt index for our industry.



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Increase in AAI.DIAL Handling Charges for DEL & MAA (Note the per pallet rate has been converted into per kg for all years)

Year	Increase in %	Handling rate
1992-93	25	0.24
1993-94	15	0.28
1994-95	15	0.32
1995-96	15	0.37
1996-97	15	0.42
1997-98	15	0.49
1998-99	13	0.55
1999-00	10	0.61
2000-01	10	0.67
2001-02	3	0.69
2002-03	8	0.74
2003-04	8	0.80
2004-05	0	0.80
2005-06	3	0.82
2006-07	9	0.90
2007-08	0	0.90
2008-09	5	0.94
2009-10	5	0.99

Pricing negotiations between the handlers & the Airlines on one hand (for contracted services over 2-3years of horizon) & between the handlers & trade (forwarders / shippers) are very protracted & lengthy exercise. This can be seen by the fact that the average handling rate increase at Delhi airport over the period of last five years has been less than 5 % per year where as the average inflation in last five years has been more than 8 %.

Even the terminal, processing, storage charges (TSP) which is land side handling charges, have not been increased over a long period of time. There is enough competition pressure and the pressure has increased with two handlers.

Further as stated by AERA in the public meeting in August, there is no reference anywhere in the Competition Act, 2002, on what numbers constitutes competition. Nor does any the size of our operations fits the definition of us being in dominant position in our industry.



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Recommendation:

Therefore we recommend that having two handlers in any airport be considered sufficient to meet the competitive requirement. This will be in line with airports around the world where there is price regulation at all on cargo handling & ground handling service providers. There are fair amount of consultative process and negotiation happening between the cargo handlers and the buyers of the service.

Aggregate Revenue Requirement (ARR):-

There are number of services rendered by Terminal operators which are not related to cargo handling. Revenues from these services not regulated should not be used for purpose of calculating the ARR as that amounts to subsidizing the regulated services. Further when the assets used for providing these non regulated services are removed from the Regulatory asset base, the justification for using the revenues from non regulated services doesn't hold water.

Further Demurrage revenues should also be excluded from the calculation of the ARR as the source of this revenue is highly volatile and depends on many factors including government intervention in reducing dwell time for cargo, custom clearing process etc. Demurrage revenues have been steadily dropping because of the government emphasis on reducing the overall dwell time. Further demurrage is covered under another legislation which is namely the Custom's Act, which authorizes collection of demurrage charges. It is not related to cargo handling and is primarily related to storage activities of import custom's cargo as custodian to customs.

2. Fair Rate of Return:

The calculation of the Fair rate of return is faulty. The formula should be $FRoR = g \times (1-T)Rd + (1-g)Re$.

Meaning that all the respectively returns should be on post tax basis. For the purpose of calculation, the statutory Tax rate should be considered.

Further it is our considered view that fixing of the Fair rate of return should be such that it incentivizes the cargo handler and not penalizes them. Therefore

- The Rate should encourage growth in the market. Any additional revenue earned by the facility owner during the first five years from volumes being higher than those forecast should be added straight to the owner's bottom line. It is only in the next regulatory period that the owner should be required to share those gains with users;



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- The Rate should encourage improvements in efficiency by reducing operating costs. Any difference between actual and forecast costs will go straight to the bottom line; and should be the reward for improvement rather than being used to share it with users.
- The rate should encourage reductions in capital costs. The access arrangements allow tariffs to be based on forecast capital costs. In the event that the owner can deliver the same level of service at a lower capital cost than that forecast – dynamic efficiency in other words – the owner should receive the benefit.

All these components of the incentive mechanism mean that the facility owner has the potential to earn a rate of return greater than the regulated rate of return.

Recommendation:-

In fixing of fair rate of return, our recommendation is to have a fixed are for the regulatory control period of 5 years. But any productive gain made by the handlers is not to be used to reduce the handling price after the control period of 5 years. Only where volume increase has happened, then only the gains should be passed on to the users for the next set of control period.

3. Capital Asset Pricing Model:

CAPM being the most widely studied risk & return calculating model it still strives to prove its practical implication in the market. There are questions over its applicability in real market situations right from its publication in the Journal of Finance.

$$\text{CAPM} = R_f + \beta(R_m - R_f)$$

R_f = Risk free rate of return

β = Correlation of the return of a particular security or a portfolio versus the stock market.

R_m = Rate of return of the market

This model is good only when the company is listed in the stock exchange as has been repeatedly stated by many financial experts, to determine the rate of return on equity

According to study by Fisher Black – Beta and Return, the CAPM doesn't work well over long period of time. Factors other than beta are important in pricing of asset.

Unrealistic Assumptions:

The assumptions of this model are pretty unrealistic and doesn't hold true in the actual market situations.



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No Inflation, Taxes & Transaction costs:

This model works where there is no inflation, taxes and transaction cost. All three factors are very prevalent in the Indian market place. The inflation is more than 8 % on an average over last three years.

Risk free rate:

CAPM also assumes that the risk free rate of return is same rate for lending and borrowing, but everywhere banks always have their margin in between. Another assumption is that there is unlimited amount of money is available at risk free rate, whereas it requires almost equivalent mortgage for the same & is also limited to a small quantity. So effectively there is no risk free rate in that sense.

Beta calculation:

Calculation of Beta is another problem. Beta is dependent on historical data, where our business has to face current and future reality. There is no known method to calculate future Beta.

Further the Indian market is highly volatile and sentiment driven. Moreover there are no company of similar business model & concept which is listed on either of NIFTY or SENSEX to refer to. Neither are such firms listed in anywhere in the world which can be referenced. Referencing world market for calculation of beta is also not the right approach as the market operates in different conditions outside India. Not having any reference beta for calculation, will make the selection of beta by the authority a highly subjective number, prone to contest by the affected parties. AERA should have given some benchmark Beta numbers for us to access whether that can meet our industry expectation. Finally the investment in infrastructure asset is not a tradable commodity.

Cargo handling services are knowledge and technique driven. Asset use is only complimentary to the service being delivered. Value of the knowledge, experience, expertise and technique cannot be measured by the approach given by the AERA. It is like trying to regulate India Coffee house with Starbucks with same brush. Most of the service elements delivered to customers are knowledge driven, which doesn't require any asset and the value of which can be evaluated only by the buyer of the service. Many a time, these services are not offered by any other services provider and are tailored made for a specific client. CAPM doesn't capture this. This significantly creates a major difference in the expected return of each firm employed in cargo handling business. Therefore to bring all cargo handling firm under the common umbrella of determination of Rate of Return by CAPM is counter-productive to the whole industry including our client airlines



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Further as per the Standard ground handling agreement, which format is actually negotiated by IATA on behalf Airlines and Ground Handling Council International on behalf the handling companies worldwide, the handling companies have also to bear the insurance risk which is pretty high at more than USD 1 million per incident. This risk is also not covered in the return or ARR. No company will try to take a cover to cover their risk arising out of this liability clause in the agreement. At best they will cover probably the equivalent amount of cover for one incident, assuming the risk for the balance.

Recommendation:

We recommend a better pricing model than CAPM which can take into account the risk arising out of the following factors:-

- a. Political risk, which affects the airlines industry
- b. Trade imbalances, which affects the cargo industry
- c. Inflation
- d. GDP which affects the overall business sentiments and the airline industry very much
- e. Global risk, which affects the airlines industry and therefore impacts our revenue
- f. Dependency risk since the cargo handlers is actually not able to influence any volume growth as they are dependent on the airline capacity growth.
- g. Liability rise arising out of act of negligence
- h. Knowledge

4. Regulatory Asset Base:

Regulatory asset base should take into account only the assets used for providing regulated services. First of all we should understand that Cargo handling is primarily a service industry and more manpower dependent like any other industry in its embryonic stage but also needs assets to deliver quality services. The shift from more manpower driven to more technology driven comes with bulky investments for a long gestation period which helps develops the industry and service quality. By regulating investment into new assets will be detrimental to the industry. Further it is difficult to understand how the regulator will be able to determine the need for an asset which is sought to be acquired after the initial phase, when it the requirement of the client or need of the hour to have this said piece of asset.

Every organization has their own understanding of the market, so is the case with service offerings & hence the investment required for the same. A service which can be provided by world class infrastructure can also be provided by manpower &



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minimal assets, but the difference will always be the timely delivery and quality of the service and moreover the customer experience. When we are talking about the state of art world class service we also need a huge investment for a long gestation period. This regulation of assets discourages investment to improve not only the service quality but also the customer experience & the standard of the industry because these investment does not directly contribute to the increase in income but definitely enhances customer convenience & over all experience.

The RAB concept is also flawed in that it doesn't allow a firm to revalue its assets for purpose of replenishment of old assets when they become obsolete. If the assets are going to be taken on a book value basis less accumulated depreciation then at the time of replacement the inflation in the price will always be the positive and will require further investments for the same asset. This will increase the investment into assets without increasing the assets in actual. This will always have an inflation effect. On the other hand the investment required to buy assets is more of a business decision rather than a mere financing decision determined by rate of return. The fixed rate of return will hinder the investments which doesn't pay back immediately and require long gestation period. These investments are for a long term period of around 10 to 15 years.

Further in the situation we are in Delhi, using Regulatory Asset base approach will create a very complicated situation for our company which is building a Greenfield cargo project. Due to lower RAB for the Brownfield terminal operator, their yield per kg will be lower, compared to us which are Greenfield. This will ensure that when we are ready with our project, an artificial barrier would have been created by AERA for us to commence business, as no client will come to us at higher price, caused by this approach. Further in order to kill our business which would have invested more than Rs.200 core in the project, the other Brownfield operator would never made any new investment or make minimal investment in equipment, but yet be able to retain their client. This will kill competition and ensure the whole objective of AERA to create competition would be defeated.

5. Yield per kg:

The authority's proposal that yield can be adjusted every year is not a practical solution. For the simple reason that the customers to our services are corporate with whom we have multi-year price contract which are stable over the contract period. Even the rate on the land side i.e. TSP charges are result of the rate agreement with the airlines. Bringing the price down is acceptable to everyone, but increasing the price is something no one accepts. So it will be that while in year 2 we are forced to reduce price because of higher income in year 1, we will not be able to increase the



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price in year 3 when our income has gone down in year 2. This will be mean that our average yield and therefore our average return will always be below the fair rate of return or yield. So we always bear the risk of downside but do not get an upside gain for any reason.

Further our fear is also that the average yield will be considered as standard yield which will be counterproductive to the handling companies, who will need to give discount to those customers who have higher volume of cargo. In order to maintain average yield, we will be forced to ask other carriers to pay a higher price, which will be resisted since they will be aware of the regulatory yield prescribed for the particular handler. As a result the average for us will always be lower than the required yield calculated by AERA.

Further while there are cost attached to any value services required by the airlines, in the non regulated environment, that would be charged separately on the airline. However in the regulated environment, the airlines will demand all service on the standard price which means that the handling companies will have no incentive to offer value added services or service improvement or take on additional service elements. This will again be counterproductive to airlines that are keen to reduce their manpower and improve their efficiency by having all the required services under one roof rather than have to split their service requirement between multiple vendors as is the case today.

6. WPI

The proposed use of WPI as measure of inflation is not acceptable. Most of our running cost is related to increase in the wage related to consumer price index, annual increase in the land licence fee payable to the airport operator, which is fixed in advance per the concession agreement and increase in the utility charges again as per the concession agreement with the airport operators. All these cost put together constitute more than 80% of our running cost. Therefore per year yield increase has to be increased by these factors as mentioned above and not WPI.

Further we disapprove of the arbitrariness of fixing the X factor by AERA. This can lead to abuse and create complication because it is highly subjective matter as has been admitted by AERA in the document itself.

Moreover the constant increase and decrease in yield every year is very upsetting for the business because as already explained, we have contractual agreement with our customer. It is not easy to keep changing the rate.



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7. Final Recommendation:-

1. Cargo handling service as far as we are concerned should not be regulated and the market forces should be left to determine the price level.
 - a. Under OMDA, cargo handling at Mumbai and Delhi are defined as Non aeronautical services.
 - b. There is sufficient competition in the industry even with two operators
 - c. There is a strong buyer's power amongst the airlines and the forwarders
 - d. This is in line with practises worldwide where cargo handling is not tariff regulated at all.
2. Having two handlers at any airports should be considered as sufficient for competitive landscape at these airports, which will align with situation worldwide
3. If there is a need for some regulation, the approach should be a light touch approach, where the AERA fixes a tariff for basic cargo handling service namely the physical handling and TSP charges which can be
 - a. Based on Airport authority of India published tariff plus cost of inflation plus some cost of service & infrastructure improvement
 - b. Through a consultative approach for each airport