WFS (BENGALURU) PRIVATE LIMITED, BENGALURU

Response to Stakeholder comments on Airports Economic Regulatory Authority of India (AERA)'s Consultation Paper No. 01/2023-24 dated April 24, 2023, Determination of tariff for WFS (Bengaluru) Private Limited (WFSBPL) in respect of cargo handling services at Kempegowda International Airport, Bengaluru (KIAB) for the First Control Period (FY 2023-24 to FY 2027-28)

Contents

1 Introduction

WFS Bengaluru Private Limited (WFSBPL) has submitted the response to Consultation Paper No. 1/ 2023-34 on 15th May 2023. WFSBPL hereby submits responses to stakeholder comments received on the said Consultation Paper from the following stakeholders in this document:

- Bangalore International Airport Limited
- Federation of Freight Forwarders’ Association of India (FFFAI)
- WFS Global SAS (WFS Global)
- Spicejet Limited (Spicejet)

2 Comments from Bangalore International Airport Limited (BIAL)

2.1 Change in Regulatory Framework from "Light Touch" to "Price Control"

"Authority, vide Order No. 12/2010-11 dated 10.01.2011 and Direction No. 04/2010-11 dated 10.01.2011, issued 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, 2011 ("Guidelines").

The above mentioned Guidelines clearly specify the manner of assessing an Operator based on materiality, competitiveness etc. In this case, WFSBPL has been evaluated to be under "Light Touch" approach correctly by the Authority. In a Light Touch approach, the Authority is required to evaluate the overall profitability etc. and approve the tariff, as the competitive environment ensures a level playing field of operations.

However, in the subject Consultation Paper, Authority has unilaterally decided to adopt an intrusive "Price Cap" regulatory approach. The Authority has claimed that even in "light touch approach", it can examine all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenue, expenses, volumes etc. and other relevant aspects of the case, to ensure that extraordinary gains do not accrue to the Service Provider and that the end Users are not unduly burdened with high Tariff.

We do not see anywhere in the Guidelines issued by the Authority that there is such a provision applicable for "light touch" regulatory approach.

The Guidelines have been issued pursuant to powers conferred on the Authority as contained in Section 15 of the Act. They form the guiding principles of the AERA's tariff determination methodology for service providers like WFSBPL. These Guidelines and Orders have been issued under Section 15 of the AERA Act and they are binding as it is on the parties including AERA, unless it is amended or modified in a process known to law.

WFSBPL is a new Service Provider at KIAB who is filing the Tariff petition for the 1st control period and hence there is no case available for AERA to prejudge that extraordinary gains will accrue to WFSBPL and that end users will be burdened by higher tariff. AERA's reasoning mentioned in the Consultation Paper for changing the regulatory approach clearly exhibits that it has a "pre-conceived" notion, and such an approach is contrary to the role envisaged under the AERA Act.

In fact, the MYTP submissions clearly establish that there is a loss in the 1st two years of operations and the operator is only making profits in the last 3 years of the control period. Hence, there is no case to be made regarding "extraordinary gains" accruing to the operator. Further, the average PAT Margin for the 5 years as per MYTP submissions is only about 8% and this by no stretch of imagination can be termed as "extraordinary".

It is also pertinent to note that Tariffs for Cargo operators at KIAB was last revised in 2014 and hence cargo operations at KIAB cannot be termed as "extraordinary gains" accruing business. BIAL feels *that the above statement made by the Authority is generic in nature and is not specific to Cargo operations at KIAB.*

The stance taken by AERA in regard to "regulatory philosophy" will deprive WFSBPL the flexibility granted under "Light Touch" approach to fix rates and also the downside protection of true up offered under a "Price Cap" approach. This is detrimental to the development of cargo business at KIAB and we request the Authority to have a re-look at the above position.

The Authority recognizes that Air Cargo has been a beneficiary of the Covid pandemic and is expected to grow rapidly, primarily supported by Government of India's Make in India program and incentives aimed at boosting exports.

Since KIAB already accounts for nearly 40% of air cargo business in South India, the Authority is requested to relook its approach and adopt the "Light Touch" tariff philosophy that provides the WFSBPL with due flexibility and incentives to enhance the cargo infrastructure and bring in global best practices and operational efficiencies"

WFSBPL's Submission:

WFSBPL concurs with the views of BIAL in this regard. Our detailed views on this matter have also been submitted as part of stakeholder comments. The Authority has introduced an intrusive Price cap approach under Light touch wherein the True up benefit is also not given. WFSBPL also reiterates that adoption of intrusive method for a light touch approach is a direct deviation from the guidelines and as a result, WFSBPL is at a huge disadvantage.

WFSBPL also reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL requests that in determining the final Tariff Order, AERA considers a reasonable profitability benchmark and additional increase in TSP ceiling rates (versus what has been outlined in the CP) to ensure the long-term viability of its cargo operation at KIAB.

2.2 Uniform Price increase for Airlines and Shippers/Agents

"AERA has proposed to apply a uniform tariff increase between the tariff for Agents/Freight Forwarders (FF) and Airlines. Denying the freedom to structure or allocate the tariff hikes between different customer segments (FF/Airlines) would result in artificially increasing the revenue projections but one which WFSBPL would not be able to achieve at all, in reality. This would further lead to increase in losses than that projected by AERA, making the entire operation of activities at WFSBPL totally unviable. BIAL requests the Authority to allow WFSBPL due flexibility to structure the rate card within the tariff eventually approved by the Authority."

WFSBPL's Submission:

WFSBPL concurs with the views of BIAL on this matter. Assuming a uniform increase in tariff for both airlines and freight forwarders is neither realistic nor achievable. WFSBPL will be unfairly penalized due to market realities that are beyond its control. Our detailed views on this matter have already been submitted as part of stakeholder comments.

For reasons stated in the stakeholder comments, WFSBPL respectfully disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the Authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at KIAB have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets.

2.3 Estimated loss, Unviable Operations and Risk of exit of Global Players

"*Private Airports Operators take a lot of initiatives to introduce Global market leaders, thereby introducing best practices and improving operational efficiencies resulting in higher overall cost efficiencies in the entire life cycle / value chain. These efficiencies bring sustained savings and better quality of operations in line with the global standards. These activities undertaken by the Airport Operators are in line with the objectives of GoI's National Air Cargo policy (NACP).*

A proposition of a loss-making scenario (with such low tariff resulting in a loss of Rs 12.54 crs for 5 years), as proposed by AERA would lead to unviable operations resulting in panic of the Global leaders entering the Indian Cargo market, which will risk the fulfilment of NACP through the entry of global leaders. This also will have a serious impact on FDI flows into India."

<u>WFSBPL's Submission:</u>

WFSBPL fully agrees with the comments of BIAL on profitability and potential consequences of such extended periods of negative profitability. Whilst a number of other players in the market are allowed to operate with a profitability in excess of 20%, tariff increases proposed by the Authority result in losses for the First Control Period for WFSBPL. This renders the operations in India unviable.

In the final Tariff Order, WFSBPL humbly requests that AERA revisit and update for a reasonable profitability target and in parallel a greater increase in tariffs (notably TSP tariffs) in sync with the proposal outlined in the WFSBPL MYTP submission. WFSBPL believes the profitability and tariffs outlined in the MYTP are reasonable and more importantly critical to ensuring a viable business that can encourage continued investment to help realise the demand and growth potential at Bengaluru.

2.4 Treatment of Security Deposit

"WFSBPL is required to deposit interest-free refundable security amounting to Rs 50 crores with BIAL during the concession period. The Authority has proposed 5% as the return on this Security Deposit. This is totally contrary to the Hon'ble TDSAT's decision dated 23rd April 2018 in AERA Appeal No 6 of 2012. The Hon'ble TDSAT has clearly stated in paragraph 106 of its order that "… At the least, the cost would be the rate of return made available by the approved funds having required ratings of

CRISIL.". The Authority needs to consider the above-mentioned principles for the Security Deposit provided to BIAL by WFSBPL.

We request and urge AERA to ensure that viability of operations of business and balancing of all stakeholders including the Cargo Operator is considered and suitable revisions be made to facilitate WFSBPL to earn reasonable profits thereby ensuring the continuity of operations."

<u>WFSBPL's Submission:</u>

WFSBPL concurs with BIAL's comment that a reasonable rate of return should be provided on the security deposit, especially since WFSBPL has had to fund the amount through external funding in the absence of any internal accruals at the startup stage. Providing lower returns on Security Deposit raised by a startup business like WFSBPL will result in losses for the startup. The implied loss on funds attributed to the Security Deposit is also one key reason for the lack of profitability (Negative profit) as estimated by AERA in CP.

WFSBPL requests AERA to provide for a return equal to WACC, or at a minimum Cost of Debt, on the Security Deposit funded.

3 Comments from FFFAI

3.1 Yearly increase in the Cargo Tariff

"As per the MYTP submission, WFSBPL has proposed the following %age increase in Tariff, over the prevailing rates of AISATS (for FY 2022-23), in respect of its proposed Cargo Handling Services at KIA, Bengaluru:

Particulars	*FY 23-24*	*FY 24-25*	*FY 25-26*	*FY 26-27*	*FY 27-28*
TSPs (incl. Demurrage Charges)	*60.0%*	*30.0%*	*30.0%*	*20.0%*	*20.0%*
Airline Fees s	*10.0%*	*4.4%*	*4.4%*	*4.4%*	*4.4%*

The said consultation paper has been issued at the time when the global and domestic industry is still reeling under the impact of Covid-19 pandemic lockdown. The growth has been impacted to such an extent that the complete revival is still not there for the industry.

At this juncture, when the Indian industry was expecting a hand holding from the Govt of India for its revival with reduction in the tariff and discounts, AERA has submitted the said consultation paper for the comments/observations of the stakeholders duly recommending the enormous YoY increase in the Cargo tariff as per the above-mentioned table inspite of the fact that KIA, Bengaluru recorded its highest-ever cargo tonnage in FY 2021-22, despite challenging circumstances due to multiple Covid waves.

Since the yearly increase is without any justification, FFFAI outrightly rejects this increase."

WFSBPL's Submission:

The tariff increase over the last 10 years at KIAB for AISATS (the incumbent) cargo operations was minimal. It is our understanding that the impact of inflationary pressures was historically able to be partially offset by continued volume growth and lower absolute costs. Now that volume has reduced significantly in the current year whilst inflation is increasing and new contractual costs have been introduced under the new concession agreement, WFSBPL contends that all of these factors contribute to the tariff increase sought. As discussed in the MYTP, WPI has increased ~35% over the last 10 years, and labor inflation (for warehouse-equivalent workers in Bengaluru) in the same period increased to ~150%.

Despite the challenging scenario, WFSBPL has been mindful of the need to balance the interests of all stakeholders and has voluntarily submitted a proposal with gradual increases in tariffs that allows for a positive PAT figure only in the 3rd year of operations.

In its MYTP submission, WFSBPL would begin to approach a PAT margin close to the level attained by industry peers only in year 5 (projected PAT margin of ~19%) and the PAT margin is projected to be either loss-making or low (versus peers) in years 1-4. WFSBPL submits that its request for a tariff increase is fair and reasonable in nature, and that sufficient consideration is given to the interests of the broader stakeholder group at KIAB (as evidenced by the gradual increase in tariffs requested).

3.2 Stakeholder's meeting

"Before the submission of the MYTP, it has been mentioned that the stakeholders meeting was conducted on 23-01-2023 and 24-01-2023. In the absence of MoM, not enclosed with the said consultation paper, FFFAI has no comments to offer and also is not party to the enhancement of the Cargo Handling charges, as per the table mentioned above."

WFSBPL's Submission:

The minutes of the meeting were shared with the stakeholders and the same was also duly submitted to AERA.

3.3 Free period for import cargo

"WFSBPL has considered the free period of 48 hours from the Flight's Actual Time of Arrival (ATA), based on which demurrage charges for different time period has been recommended by AERA in the Cargo Tariff chart. However, as per the 'Notes' it has been clarified that the free period will be from the segregation time. AERA is requested to clarify this anomaly and based on the Govt of India guidelines, the time period for free period and subsequent calculation of demurrage charges may be resubmitted for the comments of FFFAI."

WFSBPL's Submission:

WFSBPL would like to submit that the demurrage calculations will be in full compliance with guidelines issued by the Ministry of Civil Aviation, Government of India. As on date, for import cargo, free period is 48 hours and the time of reckoning of Free Period would start from segregation time reflected in ICEGATE.

3.4 Overtime charges (beyond customs working hours)

"AERA has recommended Overtime charges @ Rs 240/- per Bill of Entry for General Cargo, whereas for VAL cargo these charges are Rs 1200/- per Air Way Bill. FFFAI is of the opinion that the benchmark for the Overtime charges should be same for all type of cargo, i.e., either 'per Shipping Bill' OR 'per Air way Bill'.

Further, uniformity and rationality in the Overtime rate should be considered for all type of cargo and separate charges for different type of cargo be avoided."

WFSBPL's Submission:
WFSBPL submits that in the interest of maintaining consistency and continuity of the tariff structure, no changes have been proposed to the overall structure/charging parameters as compared to the structure approved by AERA for the incumbent operator.

3.5 Transshipment charges

"In case of transshipment cargo, AERA has recommended that stipulated TSP charges will also be levied to all types of cargo, in addition to the transshipment charges. In this regard, FFFAI is of the opinion that in case of 'transshipment cargo' only transshipment charges may be levied since levy of additional TSP charges will lead to duplication and increase in the total charges.

WFSBPL's Submission:
WFSBPL submits that in the interest of maintaining consistency and continuity of the tariff structure, no changes have been proposed to the overall structure/charging parameters as compared to the structure approved by AERA for the incumbent operator.

3.6 Air freight station

"*In accordance with the AFS Policy, issued by MoCA vide OM no. AV.13011/03/2013-ER dated 28th October, 2014, Air Cargo Terminal Operators will not insist on levying full TSP charges on consignments/cargo meant for/received from AFS and AERA, while approving the TSP charges shall give the break-up of Transit, Storage and Processing charges.*

On perusal of the subject Consultation paper, it is observed that M/s WFSBPL has not submitted the TSP charges on 'per kg' basis, proposed to be leviable on AFS consignments by M/s WFSBPL, but instead, has submitted composite tariff for Built Up Pallets (BUPs).

However, AERA has sought specific views/comments of the stakeholders on the proposal regarding lower TSP charges for AFS cargo, particularly considering the AFS is a relatively new concept in Indian Civil Aviation.

The levy of the TSP charges depends on the activities performed by the Air Cargo Terminal Operator/AFS Operator from the point of accepting the export cargo at AFS premises till handing over to the Air Cargo terminal Operator for shifting to Air side to enable Airline(s) upliftment for its foreign destination.

The detailed activities which will be carried out at AFS, earlier being carried out by Air Cargo Terminal for both export and import is as per attached Annexure.

On perusal of the said Annexure, it may be seen that 85% of the above-mentioned activities will be carried out at AFS premises, hence it is recommended 85% reduction in the TSP charges for AFS cargo.

Since shippers will not be willing to pay TSP charges, twice, one each to AFS and WFSBPL, shippers may be given the option to pay TSP charges to AFS operator only are physically handling the cargo and cargo terminal Operator may be permitted to handle loaded ULDs only as forwarded by AFS for the Airlines to be loaded in their respective Aircrafts.

WFSBPL may charge Rs 1250/- per pallet (up to 1500 kgs) and 50% of the General cargo TSP charges for pallets more than 1500 kgs i.e., (Total weight of the pallet – 1500 kgs) X 50% of General Cargo TSP rate.

The above recommendations, it is felt will go a long way in further developing the AFS concept and de- congestion of the Airport premises which will be utilized for only movement of the cargo and AFS facility will be utilized for storing and processing of the cargo."

WFSBPL's Submission:

WFSBPL respectfully disagrees with the contention made by FFFAI on the scope of activities & cost burdens involved in processing an AFS cargo through a cargo terminal and it is to be noted that under the present approach being considered for AFS operations in India, the role of the Cargo Terminal Operator is far beyond merely "ULD (BUP) off loading and location" as claimed in the submission.

WFSBPL proposes to accept the BUP Tariff proposed by the Authority in the Consultation Paper with a view to be supportive of the efforts made by the Authority and industry to encourage BUP usage in the country.

4 Comments from WFS Global

4.1 Principles of Tariff Determination

"The Authority has determined that the operations of WFSBPL are "material but competitive, and as such should be considered under the Light Touch approach (which WFS agrees with). WFS has reviewed a number of cargo handling independent service provider (151) submissions as well as the guidelines issued by AERA regarding this methodology. As such, WFS is fully aware of the Light Touch approach typically taken by AERA to limit revenues to those required to achieve a reasonable level of profitability in line with peer group profitability levels. Accordingly, WFSBPL.'s submission has been guided by such an approach. However, it appears that the Authority in its Consultation Paper has adopted a methodology consistent with the Price Cap approach with no 'true-up' mechanism which is inconsistent with AERA's Light Touch guidelines and prior ISP determinations. This approach unfairly penalizes WSBPL and jeopardizes the revenue and profits of the JV, particularly if WFSBPL is unable to achieve the airline ceiling tariff rates outlined by the Authority (see "Uniform Rate Increases for Airlines and Freight Forwarders below for further details)"

<u>WFSBPL's Submission:</u>

WFSBPL concurs with the views of WFS Global in this regard. Our detailed views on this matter have been submitted as part of stakeholder comments. WFSBPL also reiterates that adoption of intrusive method for a light touch approach is a direct deviation from the guidelines and WFSBPL is at a huge disadvantage.

WFSBPL also reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL humbly requests that in determining the final Tariff Order, the Authority kindly considers a reasonable profitability benchmark and additional increase in TSP ceiling rates (versus what has been outlined in the CP) to ensure the long-term viability of its Bengaluru cargo operation.

4.2 Uniform Rate Increases for Airlines and Freight Forwarder

"WFS is fully supportive of the proposal by WFSBPL to have different levels of price adjustments for rates charged to airlines versus freight forwarders (in line with the Authority's guidelines permitting operators to structure the Tariff Card in view of the business and market needs). The Authority has however proposed uniform increase in rates for both airlines and freight forwarders, and assumed that the airline ceiling rule increases will translate into additional revenue. WFS believes that this assumption in incorrect given that, in a competitive market such as Bengaluru, airlines enjoy substantial pricing power and under the new concession will daring this month enter into contracts with fixed prices (aside from CPI-linked dement mechanisms) for the next 3-5 years within the boundaries of the existing ceiling rates-specifically, any uplift in airline ceiling rates will have minimal impact on revenues within the First Control Period. We also note that many of the airline customers at KIAB currently pay materially less than the ceiling rates that were introduced in 2013-14, evidencing the airline pricing power and competitive landscape in place at the airport. Furthermore, WFS is fully committed to helping attract new airline customers to KIAB and the Indian market and

believes that attractive airline pricing is important to help drive the volume assumptions set out in WFSBPL's submission Consequently, WFS agrees with the WFSBPL view that the airline revenues outlined by the Authority in relation to the airline ceiling cote uplifts proposed within the Consultation Paper are unattainable and present a tangible risk to the profitability assumptions set out by the Authority."

WFSBPL's Submission:

WFSBPL concurs with the views of WFS Global on this matter. Our detailed views on this matter have already been submitted as part of stakeholder comments.

For the reasons stated in the stakeholder comments, WFSBPL respectfully disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at KIAB have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets.

4.3 Negative Profitability for the First Control Period

"The proposals set out by the Authority within the Consultation Paper outline that WFSBPL will be permitted to achieve an aggregate 5-year negative profit after tax margin of (19%) for the First Control Period. Firstly, WFS agrees with WFSBPL's submission that this level of profitability is likely unachievable due to multiple unattainable assumptions made by the Authority which are addressed in detail within the WFSBPL response document. Secondly, WFS reiterates that this level of profitability is materially lower than that generated by peers in the Indian market, many of which achieve profit after tax margins in excess of 20%, and as such the negative profit after tax margin appears unreasonable in comparison Furthermore, this decision by the Authority will result in the business generating material cash losses in the long-term and will impact WFSBPL's ability to raise the required level of funding to invest in the facilities and operations. Ultimately, if not revisited as part of the final Tariff Order, this negative outlook will prompt a revisit of the original investment plans developed for the business which were focused on generating best-in-class efficiencies and supporting development of the Bengaluru air cargo market."

4.4 Return on Investments

"As a leading investor in cargo handling facilities globally, WFS actively looks at investment opportunities across the world including India However the Authority" proposals to permit only a negative profit after tax margin over the course of the control period imply a negative Return on Equity Accordingly, WES is concerned that this severely limits the attractiveness of the Indian cargo handling market for further new investments when compared to other global opportunities. More broadly, if the current proposals are not revisited and improved upon as part of the final Tariff Order, this decision

could be detrimental to investment in India's cargo handling market from investors (not just WFS) that expect to achieve a reasonable profit and return of ventures entered into.

For the reasons outlined above, WFS respectfully urges the Authority to reconsider the proposals set out in their emulation Paper. In particular, WFS requests that the Authority agrees to revisit the allowable level of pro in order to allow WFSBPL to achieve levels of profitability consistent with peers in the India market. In parallel, WFS requests that the authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight Forwarders. Specifically, WFS requests that that the Terminal, Storage and Processing ("TSP") tariffs payable by freight forwarders, which have not been increased at the incumbent operation in the last 10 years, be revisited and materially increased in line with the request outlined in the WFSBPL stakeholder response documentation. Combined, these changes will help ensure WFSBPL can become stainable business that generates a fair and reasonable level of return

WFS also respectfully requests that the Authority considers the implications of the Tariff Order decision on the attractiveness of the cargo handling market in India at a whole. WFS, as the largest cargo handling vices company in the world and a market leader in investment in cargo handling facilities, mains fully committed to India as a structurally growing Air Cargo market, but believes the current proposals set forth by the Authority raise clear risks concerning the viability and attractiveness of India cargo handling operations given the Authority's stance regarding profitability and tariff hikes an reflected the Coltan Paper W75 believes that the current proposal, if unchanged, could limit the attractiveness of the Indian cargo handling market to both WFS as well as other investors, subsequently presenting a risk to India achieving its vision of becoming a 10 million MT cargo market by 2030.

WFSBPL's Submission for 4.3 and 4.4:

WFSBPL fully agrees with the comments of WFS Global on profitability and potentially severe risks for investors when faced with sustained negative profitability for extended periods in a fully price regulated market. Whilst a number of other players in the market are allowed to operate with a profitability in excess of 20%, tariff increases proposed by the Authority results in losses for the first control period for WFSBPL. This renders the operations in India unviable.

In the final Tariff Order, WFSBPL humbly requests that AERA revisits and updates for a reasonable profitability target and in parallel a greater increase in tariffs (notably TSP tariffs paid by the forwarders) in sync with the proposal outlined in the WFSBPL MYTP submission. WFSBPL believes the profitability and tariffs outlined in the MYTP are reasonable and more importantly critical to ensuring a viable business that can encourage continued investment to help realise the demand and growth potential at Bengaluru.

5 Comments from Spicejet

5.1 Review of Tendering Process

"(Refer 1.1.1.1.1.3 & 1.1.4 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 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"

WFSBPL's Submission

WFSBPL submits that the question on structuring of Airport Operator concession agreements is not within its purview and hence no views are there to be offered.

5.2 Cargo Volume Projections

(Refer 3.1.2.3.1.3, 3.246328, 32.8 and Tablet & 7 of the CP)

While it appears that the domestic volumes and operations appear to have normalised and recovered from the impact of COVID-10, it my may be noted that recent trends during abnormal times of COVID-19 may not show similar trends in the future after normalisation 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 impact on the cargo volumes 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 WFSBPL is a new entrant with no track record at this station In addition, we request AERA to conduct an independent expert study for Cargo Volumetric projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act).

WFSBPL's Submission

WFSBPL agrees with the contentions made that the COVID-19 impacted period led to abnormally high surge in international cargo volumes which has already shown a steady decline worldwide and in particular at the facility being taken over by WFSBPL, with a Y-o-Y decline of 26% during FY2022-23 as compared to the preceding year.

The Authority has assumed an annualised traffic volume of 132,308 MT for WFSBPL for FY2023-24, which represents a growth of over 42% compared to the volume of cargo handled by AISATS at the same facility during the period of FY2022-23, which amounted to 93,319 MT.

For the month of Apr'23, the Cargo tonnage of AISATS has decreased by 21% (7,436MT in Apr'23 Vs 9,394 MT in Apr'22) .

In this backdrop of declining volumes and shrinking overall market following the normalising global air cargo market, the volume growth assumption of 42% YoY for WFSBPL for FY2023-24 appears highly optimistic and difficult to realise.

However, WFSBPL disagrees with the suggestion by SpiceJet to opt for a true-up of volumes in the 2nd control period by when WFSBPL would have suffered irreparable harm to its finances due to the over-estimation of early stage cargo volumes right from year 1 of operations. WFSBPL humbly requests the Authority for rationalization of cargo volumes keeping in mind the realistic market trends and the fact that WFSBPL is inheriting the smaller operation in the Bangalore market with only about 41% of the volume share (and steadily declining) as opposed to 59% enjoyed by its competitor as on date.

5.3 Deferment of Capital Expenditure

"Regulatory Asset Base Stoppage of non-safety/security related capital expenditure (Refer 4.1.1,4.2.3,4.2.5 and table 8)

In order to support the airlines to continue and sustain its operations due to adverse impact of Covid-10, all non-essential CAPEX proposed by WFSBPL should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective Without prejudice to the above, in case WFSBPL 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. It is humbly submitted that the proposed hike from the prevailing tariffs due to CAPEX planned in 1st Control Period 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 work has progressed in development of infrastructure, procurement of latest equipment and repairs/refurbishment, 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 hike from the prevailing tariffs be deferred to the 2nd Control Period based on ground realities at that time.

Authority is also requested to evaluate whether the expansion in the current tonnage scenario would be required, as the current capacity may have not been optimized"

WFSBPL's Submission:

The Authority, even under light touch approach, has undertaken an extensive analysis of capital spends and has finally concluded in para 4.2.8 that *"In view of the above, the Authority feels that the CAPEX proposed by the ISP on CCF during the First Control Period is imperative for conduct of smooth business operations & to meet future demand."*

WFSBPL, in its MYTP submission has elaborately explained the need for the capex, along with granular break up of cost. Hence, WFSBPL submits that all the costs for capital spends are justified and does not see any further optimization that can be done at this stage.

5.4 Abolishment of Royalty Charges/ Concession Fee Concession Fees

"(Refer 5.3, 53.3 and 5.4.3 and Table 14 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 mostly be passed on to the airlines/stakeholders through the tariff determination mechanism process, and indirectly the 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 :
The rates of royalty (concession fees) at BIAL as mentioned in the Consultation Paper by WFSBPL for Cargo Services is 30% of Gross Revenue to the Airport Operator

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.

In repose to the above mentioned submission by FIA, AERA had mentioned in the lar 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 tatt for the Independent Service Provider

Accordingly, in response to the consultation paper No. 21 2021-22 dated 14/10/ 2021 for determination of ta for the Third control period (PY 2021-22 to FY 2025-26) in respect of Mis Globeground India Pvt. Ltd. (GGPL) for providing ground handling services 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.

However, the Authority had in its tariff order no. 31/2021-22 dated 23nd December 2021 noted that it considers the process of "Award of Contract as non-regulatory in nature and. the view that all such issues, including royalty share to Airport Operators may be taken up by the Stakeholders with the Service Providers/Airport Operations in appropriate forums

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.

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 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.

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 :

Royalty is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.
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 AREA 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.*

<u>WFSBPL's Submission:</u>

WFSBPL submits that this charge is as per the concession agreement entered into with BIAL for rendering specific cargo services in KIAB. The overall royalty charge is also in line with the Order issued by the Authority - In the matter of Capping the percentage of Royalty / Revenue Share payable to Airport Operator as a "Pass Through" Expenditure for the Independent Service Providers providing Cargo facility, Ground Handling and Supply of Fuel to the Aircraft at Major Airports. The fairness and requirement of abolishment, being a non-regulatory matter, WFSBPL does not wish to reply on these comments.

5.5 Operational Expenditure - Drastic Cost Cutting

"Operating & Maintenance Expenditure (Refer 5.3, 5.4.12 and Table 14 & 20 of the 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 WFSBPL 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 WFSBPL not related to safety or security. Further, we submit that:
(i) Payroll Costs: The Y-o-Y increase after 2023-24 may please not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers, rather than the proposed Y-o-Y high increase.
(ii) Administrative & General Expenses, Repair & Maintenance Expenditure, Utility Expenses: The Y-O-Y increase after 2023-24 may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers
(iii) Repair & Maintenance Expenditure, Utility Expenses: The Y-o-Y proposed increase from FY24-25 is 7% in Consumable, Utility, Repair and Maintenance expenditure. The Y-o-Y increase after 2023-24 may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.

In view of the above, WFSBPL may please be directed to pass on cost benefits to the airlines."

<u>WFSBPL's Submission:</u>

<u>Payroll Costs:</u>

WFSBPL has considered optimisation in costs based on aggressive productivity and efficiency improvements targeted over the Control Period. Such efficiency improvements expected during the First Control Period are significantly more ambitious (in terms of YoY %

improvement) than those achieved at other stations in the WFS portfolio worldwide and are only achievable with well-incentivised and well-trained employees (hence the need to secure a highly skilled and motivated workforce).

The personnel cost submitted by WFSBPL is comparable to the industry standards and is in the range as compared with other Cargo operators which has been approved by AERA and detailed comparisons have been submitted along with the stakeholder comments.

The Authority has also carefully considered the following criteria before allowing the Y-o-y increase as submitted by WFSBPL -

- the projected increase in cargo volumes,
- increase in minimum wages and annual salary increments and
- projected Y-o-Y increase in the revenues

Administrative & General Expenses, Repair & Maintenance Expenditure, Utility Expenses:

WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it.

WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

5.6 Air Freight Station (AFS)

"(Refer 6.1.1 of the CP)

Since the Air Freight Station (AFS) would an off-Airport common user facility and would be offering services for handling and temporary storage of import/export goods loaded on ULDs, it would reduce the congestion of cargo in airports and the cost is also saved. Implementing the same would be hugely beneficial for all customers who are in the business of "Import & Export". It will also help online connectivity, along with document filing where agents do not have to come to the airports. All activities, such as Customs documentation and examination, Cargo Acceptance Check, Security Checks, and warehousing will be carried out at the AFS.

It would also streamline the cargo operations, as a provision for having a bonded trucking service for the export cargo from the offline airport to the airline operating station would make is economically viable and competitive pricing. More importantly, it will help to save on demurrage charges, as it will help customers take the delivery of cargo within one or two days. There would be no congestion at the custodian warehouse.

In view of the above, decentralization would help in break the warehousing monopoly, and would benefit the cargo business by letting market forces determine lower TSP charges that those proposed in Annexure IV of the CP, and should be encouraged. In addition, it is recommended that the AFS should also have provisions for Airline's self- handling setup, which can also support the airlines for remote advance cargo acceptance and cost-effective operations.

WFSBPL's Submission:

WFSBPL proposes to accept the BUP Tariff proposed by the Authority in the Consultation Paper with a view to be supportive of the efforts made by the Authority and industry to encourage BUP usage in the country.

However, WFSBPL fully refutes the negative remarks alleging warehousing monopoly and the efforts to bring in discussions on airline self-handling which are unrelated to the tariff determination process under the existing framework for development and operation of airports and on-airport facilities in the country.

5.7 Aggregate Revenue Requirement Tariff

"(Refer 7.1.1, 7.2.4, and Table 21 and 23 of the CP)
Authority is requested to carefully peruse the reasons for the restructuring of the Tariff Rate Card, such that there are no hidden cost impact or imbalance on the users. The Authority's proposal for the increase in charges is very high (20% to 9 % Y-o-Y), which may be noted is not as per the CPI and this is opposed strongly. To enhance business, the service provider must target volumes instead of rate increase, which should be competitive in comparison to road and sea shipping. As it would be possible to gauge only in the last year of 1st Control Period (2027-28) whether significant work has progressed in development of infrastructure, procurement of latest equipment and repairs/refurbishment, as proposed in the CP, Authority is humbly requested that the proposed hike from the prevailing tariffs be deferred to the 2nd Control Period based on ground realities at that time.

The freight charges in the market are softening due to various modes of competition, especially with road connectivity between major cities and ease in logistic movement from state to state. In case of an increase in airfreight, the volumes will tend to decrease as there will be a market shift by the freight community.

Currently airlines have been struggling to support the cargo business post COVID-19, as there have been drop in volumes of pre-Covid levels in terms of per flight and this needs to be strengthened for the next few years to enhance the infra requirement as projected. To offset the high fuel prices and low % freights we request to defer these Increases beyond the level of 2 to 3% on year on year basis.

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, especially in the back drop of COVID-19. 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 the 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.*

<u>WFSBPL's Submission:</u>

The tariff increase over the last 10 years at KIAB for AISATS' (the incumbent) cargo operations was minimal. It is our understanding that the impact of inflationary pressures was historically able to be partially offset by continued volume growth and lower absolute costs. Now that volume has reduced significantly in the current year whilst inflation is increasing and new contractual costs have been introduced under the new concession agreement, WFSBPL contends that all of these factors contribute to the tariff increase sought. As discussed in the MYTP, WPI has increased ~35% over the last 10 years, and labor inflation (for warehouse-equivalent workers in Bengaluru) in the same period increased to ~150%.

Despite the challenging scenario, WFSBPL has been mindful of the need to balance the interests of all stakeholders and has voluntarily submitted a proposal with gradual increases in tariffs that allows for a positive PAT figure only in the 3rd year of operations.

In its MYTP submission, WFSBPL would begin to approach a PAT margin close to the level attained by industry peers only in year 5 (projected PAT margin of ~19%) and the PAT margin is projected to be either loss-making or low (versus peers) in years 1-4.As such, WFSBPL submits that its request for a tariff increase is fair and reasonable in nature, and that sufficient consideration is given to the interests of the broader stakeholder group at KIAB (as evidenced by the gradual increase in tariffs requested).

5.8 Fair Rate of Return (FROR)

"Return on Revenue (Refer 7.2.2 and Table 22 of the CP)

It is submitted that only a reasonable Fair Rate of Return (FROR) to the service provider may be provided. It is observed that AERA has considered FROR of 10.31%, for the First Control Period. However, while such fixed/ assured return favours the service provider, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, service providers have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne mostly by airlines.

In the present scenario the assured return on investment through the proposed FROR to WFSBPL appears onerous for the airlines. In view of the above, AERA is requested to kindly review the proposed FROR to WFSBPL and requested to minimize the effect on the airlines."

WFSBPL's Submission:

WFSBPL as submitted in its MYTP is committed to improving efficiencies at every step. Detailed notes on how process improvements will increase efficiencies thereby reducing costs have been given in the MYTP submission. However, the same are summarized below for ready reference:

"**Personnel Costs -** *WFSBPL strives to build the business on efficient practices and procedures. We expect to therefore make significant productivity improvements over the control period. From FY 26, WFSBPL projects a 15% per annum efficiency in direct labour employees, driven by an improvement in productivity within the warehouse from 149 kilos per man hour to 243 kilos per man hour over the control period, representing a cumulative improvement of 63%."*

Continuous Improvement, Investment and People Focus: WFS Group invests in its network and the technology needed to provide greater value and sustainability. This continual improvement creates efficiencies that enables WFS Group to streamline processes and retain its position as the global best-in-class cargo handler. WFS Group's experienced, passionate, and proactive teams constantly strive to achieve the safest, most efficient way to deliver services to its valued customers.

At KIAB, WFS Group will bring in its highest international standards for safety, security and operational excellence as well as invest in optimizing and expanding KIAB's cargo infrastructure. Together with BIAL, WFS Group will work to sustain growth in the long term and help achieve the airport's goal of creating a robust ecosystem that can cater for up to one million tonnes of cargo a year."

WFSBPL reiterates here that the approach proposed by the Authority is that of a light touch approach, but with a full intrusive analysis whereby the tariff is fixed as a fixed percentage of the RAB. This method does not yield any profits to the company even over a 5-year period and since it is a light touch approach, the company loses on true up also at the end of 5-year period. Hence, it is only in the company's interest and profitability that WFSBPL would ensure most efficient practices and policies are laid out and the costs are kept to the minimum. WFSBPL requests the Authority to kindly consider and allow FROR as per its Stakeholder Response submission dated 15th May 2023.

5.9 Profitability Analysis

"P&L Summary (Refer 8.2.5 and Table 29 of the CP)

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, it is noted that as per the proposed P&L Summary (Table 29), the service provider is expected to report significant profits. This contradiction of service providers to airlines making profits, while the airlines themselves making losses is contradictory in principle. We request Authority to reconsider this anomaly which would be caused by the proposed hikes"

WFSBPL's Submission:

WFSBPL would like to respectfully highlight here that unlike airlines that enjoy full pricing freedom in the market, Cargo Terminal Operators such as WFSBPL are fully price-regulated entities with high, upfront fixed costs and no room for market-linked price increases and profit maximization.

During the COVID-19 pandemic and the period thereafter, all major carriers reported record levels of price increases with resulting boost to cargo revenues and profitability unlike CTOs who had to contend with unchanged tariff even in the face of lower overall volumes and rising costs. All available information in the public domain indicates that the airlines were able to increase prices by 2x to 5x or more of pre-pandemic prices on air cargo even as terminal charges payable to CTOs remained the same for as long as a decade almost, as seen in the Bangalore market.

WFSBPL also rejects the assertion that the proposed P&L for WFSBPL as contained in the Consultation Paper shows a level of 'significant profitability' given how the company is projected to report a negative profitability for the entire Control Period combined, even with unrealistically high estimations on starting cargo volumes and airline tariff increases coupled with aggressive Y-o-Y growth applied.

WFSBPL respectfully submits that its request for tariff increase to be eventual profitability of 19% on revenues for the final year of the First Control Period, in line with industry standards, with losses projected for the first 2 years is a sufficient consideration given to meet the interest of all the stakeholders in the value chain and hence its fair and reasonable to consider the tariffs requested by WFSBPL.