

May 15, 2023

Director (P&S, Tariff)

Airports Economic Regulatory Authority of India (“AERA” or “the Authority”)

AERA Building

Safdarjung Airport

Delhi

Re: Determination of Tariff for WFS (Bengaluru) Private Limited for the First Control Period (FY 2023-24 to FY 2027-28) – Stakeholder’s Comments

Dear Sir:

WFS Global SAS (“WFS”) entered into a Cargo Service Provider Right Holder Agreement (“SPRH-2 Agreement”) with Bangalore International Airport Limited (“BIAL”) on 16 December 2022, to design, build, finance, develop, undertake refurbishment activities, operate, manage, maintain and transfer the Existing Cargo Terminal 2 and an expanded Cold Chain Facility at Kempegowda International Airport, Bengaluru (“KIAB”) through its joint venture with BIAL, WFS (Bengaluru) Private Limited (“WFSBPL” or “the JV”). WFS is appreciative of the effort carried out to date by the Authority in the matter of determination of tariffs for WFSBPL in respect of cargo handling services at KIAB for the First Control Period (FY 2023-24 to FY 2027-28).

Since our foundation in 1984, WFS has grown to become the largest independent cargo handling services company in the world based on revenue and tonnage. We have a presence at 165 airport stations in 17 countries on five continents, handling over 7 million metric tons of cargo per year and operating at some of the busiest and most strategically important airports in the world. We are the leading cargo handler at the majority of the largest European and U.S. airports. In the past 5 years alone, WFS has invested over €400 million in cargo handling operations and acquisitions, and investing in the growth of our global cargo network continues to be our top strategic priority and will remain so in the long term.

Whilst we have grown globally over recent decades, WFS has never had a formal presence in India. In the past few years, WFS has been encouraged by developments in the airport sector and particularly the structural growth and increased competitiveness in the cargo handling market. As such, WFS decided to formally participate in the request for proposal for the selection of a service provider to carry out this project at KIAB in April 2022, and was ultimately successful in this regard. Whilst this project represents the first venture into the Indian cargo handling market, WFS views India as a long-term investment opportunity extending beyond Bengaluru to many more opportunities across other Indian airports.

WFS fully concurs with the concerns and observations raised by WFSBPL about the proposals outlined by the Authority through within published consultation paper released 24th April 2023 (“Consultation Paper” or “CP”). WFS believes that the proposals do not conform with precedent determinations (for other cargo handlers in the market) with regards to the Light Touch Approach to tariff determination, do not allow the business to achieve a reasonable and sustainable level of profitability, and that the proposals are ultimately out of sync with the on-the-ground reality and competitive market considerations. WFS would like to highlight and reiterate the following key issues (all of which are outlined in detail in the WFSBPL comprehensive response documentation shared):

- **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 (“ISP”) 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 WFSBPL 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).
- **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 (1%) 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.
- **Uniform Rate Increases for Airlines and Freight Forwarders:** 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 a uniform increase in rates for both airlines and freight forwarders, and assumed that the airline ceiling rate increases will translate into additional revenue. WFS believes that this assumption is incorrect given that, in a competitive market such as Bengaluru, airlines enjoy substantial pricing power and under the new concession will during this month enter into contracts with fixed prices (aside from CPI-linked adjustment 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 rate uplifts proposed within the Consultation Paper are unattainable and present a tangible risk to the profitability assumptions set out by the Authority.
- **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’s proposals to permit only a negative profit after tax margin over the course of the control period imply a negative Return on Equity. Accordingly, WFS 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 on ventures entered into.

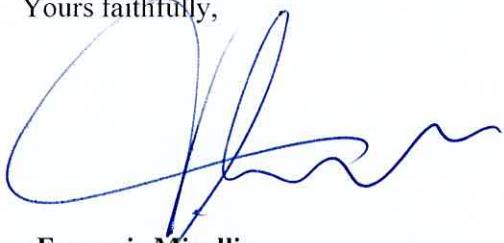
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For the reasons outlined above, WFS respectfully urges the Authority to reconsider the proposals set out in their Consultation Paper. In particular, WFS requests that the Authority agrees to revisit the allowable level of profitability in order to 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 a sustainable 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 as a whole. WFS, as the largest cargo handling services company in the world and a market leader in investment in cargo handling facilities, remains 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 as reflected in the Consultation Paper. WFS 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.

We remain at your complete disposal should any questions arise.

Yours faithfully,



Francois Mirallie
Deputy Chief Executive Officer, WFS
Managing Director, WFS Global SAS

Copy to: The Chairperson, Airports Economic Regulatory Authority (AERA)