

GREAT SOUTHERN HOTEL
DUBLIN AIRPORT

PRESENTATIONS WERE PUT BEFORE THE COMMISSION FOR AVIATION
ON 18TH JULY 2001 BY:

- (1) IRISH EXPORTERS ASSOCIATION
- (2) LIMERICK CHAMBERS OF COMMERCE - [click here](#) for more information
- (3) SOUTH WEST REGIONAL AUTHORITY
- (4) RYANAIR

MEMBERS OF COMMISSION FOR AVIATION REGULATION

BILL PRASFIKA
CATHAL GUIOMARD
JARLETH BURKE
ROSALINE BYRNE
ANNE MOLONEY
OLIVER HOGAN

I HEREBY CERTIFY THE
FOLLOWING TO BE A TRUE
AND ACCURATE TRANSCRIPT
OF MY SHORTHAND NOTES OF
THE PRESENTATIONS BEFORE
ABOVE-NAMED MEETING.

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MEETING COMMENCED ON 18TH JULY 2001 AS FOLLOWS:

MR. PRASFIKA: Maybe if we can begin.
 This is the second day of
our public hearings, just to repeat very briefly
some of the points which we stated yesterday. The
purpose of these hearings are for parties to make
oral representations as they are provided for under
the legislation. There has been a slight

rearrangement to the scheduling of some of the parties, they have done this to facilitate us, so we want to thank them all, and maybe just briefly indicate where the scheduling is going to be. At 10 o'clock we have the Irish Exporters Association, 11 o'clock Limerick Chamber of Commerce, 12 o'clock South West Regional Authority, and then at 2 o'clock we have Ryanair. So if we can begin with the first representation from the Irish Exporters Association.

PRESENTATION WAS MADE ON BEHALF OF IRISH EXPORTERS ASSOCIATION BY JOHN WHELAN AS FOLLOWS:

MR. WHELAN: Good morning, my name is John Whelan, I am the Chief Executive of the Irish Exporters Association. I would like to thank the Commission for this opportunity of making representations on behalf of our members. The report was prepared -- the representation here this morning has been prepared by the Irish Exporters Association following consultation with its members and the service providers who interface between the exporters and the airport operator Aer Rianta. In particular vast numbers of our members would use the freight forwarders, who are members of the Irish International Freight Association and they have also given us a substantial number of inputs.

The primary focus of the submission relates to the impact of the Aviation Commissioner's proposed maximum airport charges on the movement of commercial goods or cargo. As exporters are also the prime importers into Ireland, the cost implications of the proposed charges are considered for arrivals and departures of goods. The Irish exporter members account for approximately 70% of the processed or manufactured goods in and out of Ireland, about 95% of the airport cargo volume.

The primary objectives of our presentation is two-fold. To assist the Aviation Commission in arriving at an equitable and balanced judgement as to the appropriate maximum level of airport charges, it should allow for cargo in relation to Dublin, Shannon and Cork airports.

And also to ensure exporters out of Ireland are not disadvantaged or hindered in the development of their business due to the introduction of a regulated airport access charging regime which is excessive and/or inappropriate for the movement of commercial goods. Now at this particular point the Irish Exporters wish to thank the Commission for the clarification of certain points of detail in the Commissioner's paper which is under discussion today which we had prior to today's meeting.

The submission is going to cover the following areas. The whole question of access, prior charge demands, benchmarking, the capital expenditure programme, and then I will just do a brief summary.

Under the heading of access - globalization is a key feature of the modern competitive environment. This is true not only for companies, but also for regions, economies, countries and even continents since all activities are now exposed to global

competition. So as a country we are obviously very conscious of that as exporters, we are very conscious of the fact that we are an island off and island off a continent, and as such we are very dependent on access to competitive freight services. This dependency has become more acute in the past decade as congestion in the infrastructure has reduced efficiency of the whole supply chain out of Ireland.

Ireland has successfully taken a share of the global outsourcing market, the foreign direct investment which sort of -- the vast majority of multinationals in Ireland, and they provide one of the biggest sectors of the whole export growth out of Ireland and a lot of that has been based on the provision of world-class logistics. Central to the success of offering world-class logistics for exporters out of Ireland is an efficient air freight service at competitive costs.

The facilities supporting cargo services at Dublin airport in particular, have not been put in place to any great extent by Aer Rianta, but to a significant extent by the airlines and related service providers.

This system of allowing independent investments in cargo facilities has worked well and allows of

flexible supply chain management of a lean nature. Aer Rianta has played its part in this partnership strategy and has kept its cargo access charges competitive and reflective of its development and

handling costs in this area. It is central, therefore, in going forward and I recommend the Commission take this approach that we allow Aer Rianta continue in this approach and that the respected suppliers of logistic services are not brought into conflict on the basis of a new regime of unacceptable cargo charges.

Now moving on to the section on prior charge demand. The Regulators proposed maximum airport charge for cargo is five times higher than that requested by Aer Rianta last year. During 2000, Aer Rianta made application to the Minister for Public Enterprise for a cargo airport charge of ú10 per tonne on both imports and exports. They requested an effective date on 1st January 2001, now this was before the Commission was set up. This request was imposed by the Irish Exporters Association, and submissions made to the Minister. Now the Minister wrote back to me and advised that she had put it to Aer Rianta that they should not proceed with this charge, but that she would get the Aviation Regulator when in place to investigate.

Now the Irish Exporters Association believed that

the Aviation Commission proposed maximum cargo charge of ú49.60 per tonne at Dublin, ú60.50 per tonne at Shannon Airport and ú71.50 per tonne at Cork is excessive, does not reflect the airport operator's requirement, in this instance Aer Rianta, or the cost structure for cargo, and should be lower than the ú10 per tonne originally applied for by Aer Rianta.

And then moving onto the section on benchmarking. The Commission's benchmarking has been done against best in its class airports of similar size based on passenger numbers, rather than on cargo throughput. Hence to base a maximum charge allowable charge for cargo on this benchmarking exercise is obviously not valid in our mind.

The work load unit relationship utilised by the Commission is also suspect as it is based on the generalised International Civil Aviation Organisation broad measure of 1,000 passengers equals 100 tonnes of cargo. We maintain that an activity analysis, benchmarking use of airport facilities by the cargo handling activity would be a more accurate way of measuring the cost/revenue allocation and we would strongly recommend that to the Commission.

Now, moving on to the section on the Capital

Expenditure Programme. The Capital Expenditure

Programme proposed by Aer Rianta is very ambitious, and Aer Rianta in many regards have to be complemented on the development of the airports over the years. However, we would suggest in this very excessive programme of capital development that they are putting forward, that it should be evaluated against external private costings to provide the same service and the costs that would be worth coming at. On one particular point, serious questions must be asked of the proposal to create a private rail system within the airport complex for €105 million capital programme. And I would have thought that Aer Rianta doing some sort of an interlink with the proposed Iarnrod Eireann plans for rail would at relatively low costs, I would think, meet their internal requirements as well as the general requirements to link the airport with the rail system, which on a separate forum where we have been working hard for the last 12 months, this whole area has been pumped hard by us.

However, for today's presentation we are mainly accepting the CAPEX as proposed by Aer Rianta and reported in the Commissioner's paper at its face value. This shows that just under a half a billion pounds Irish, is proposed for the expenditure at Dublin Airport in the time frame 2001 to 2010, I detailed more in Appendix 1, but only €9 million of

this have billion or 1.8% is proposed for cargo infrastructure.

Now if we are comparing this to the potential revenue source allowable under the max revenue per work load unit proposed by the Commission, this shows cargo generating 9% of the total revenue, but only, shall we say, getting development of 1.8% of the CAPEX, so there is five times, shall we say, higher return being allowed on capital expenditure for cargo than for passengers with regard to Dublin.

At Shannon the capital expenditure programme with €84.4 million in the ten year plan, however, only €150,000 has been allocated to cargo facilities, a mere .17% of the total CAPEX. Now the revenue potential if the proposed maximum charge per work load unit was implemented would see 18% of the total revenue coming from cargo in Shannon, which is a factor of 100 times greater return being allocated to cargo against this CAPEX programme, than on passengers CAPEX investment.

Similarly in Cork it shows a CAPEX programme of €100.4 million with zero allocation for cargo infrastructure. And in terms of potential revenue per work load unit cargo would generate 6% of the total. Again indicating an erroneous relationship

in the Regulators work load unit per passenger and cargo.

So without going into the Appendices at this stage Commissioner I would just like to summarise our position. We are saying on the basis of the current support facilities for cargo handling and the proposed future capital expenditure on new cargo handling facilities by Aer Rianta, the proposed maximum airport charge for cargo has been shown to be overstated by a minimum factor of five times.

On the basis of benchmarking airports on a passenger number basis and then extrapolating to cargo, there are serious doubts as to the validity of the work load unit system devised by the regulator to determine airport access charges for cargo.

On the basis of capital expenditure in the proposed ten year development programme for airports, and obviously I truncated the figures somewhat, but you could multiply them, but it still comes out to the same general relationship. There is a strong case for reducing the proposed maximum airport charges by a factor of five to reflect the capital expenditure in the cargo facilities versus that in the passenger facilities.

On the basis of Aer Rianta's prior request for a cargo access charge, a maximum of $\text{ú}10$ per tonne

would be considered the highest level we believe that the regulator should allow. This would also be reflective of the other analysis points that I have made above and I will leave it there for the moment Commissioner.

MR. PRASFIKA: Okay, thank you very much.

Maybe I can just begin by a point of clarification. This was an issue that was discussed yesterday, the Commission would like to clarify that it's approach in terms of setting yields per work load unit should not be acquainted with setting of charges. For example, we are not suggesting that every time a passenger moves through Dublin airport that therefore there is a charge of $\text{ú}4.96$ or for the corresponding amount of cargo. These yield formulas simply indicate the total amount of revenue that the airport is allowed to achieve through the year from airport charges. It is done that way for a number of reasons, not the least of which is to avoid putting the regulated term into a regulatory strait-jacket. How those changes will be implemented precisely into determining charges, is therefore left as a matter for commercial negotiation, competitive pressures.

So I would just like to clarify for the Association that we are not, in fact, setting a cargo fee of ú49.6 per tonne. What we are simply saying is that that amount goes into an overall yield.

The second point that I would like to make, is I think it is very important from the perspective of the Irish Exporters Association that the regulated firm be given some credit for moving cargo through the airport, and that this be reflected in the total amount of revenue that is able to achieve. For example, if the Commission decided to simply go to a per passenger yield approach, and if that determined the complete regulatory cap, then the Association would find itself in the position of having to deal with the company which ostensibly gained absolutely no benefit from the movement of cargo. Now we fully accept the point that has been made previously that the precise equation of cargo to passengers is something which is not possible to make a precise determination. We would welcome receiving commissions -- excuse me -- receiving representation on areas which you thought were more appropriate, but again I just wanted to clarify that we were not setting cargo charges, and to suggest to that it is in the interest of cargo shippers that the regulated firm achieve some regulatory benefit when moving cargo. That is in fact in your interest. So just by way of clarification.

I just have a few questions here. You speak about the benchmarking process which was done by the Commission in the belief that the benchmarking on

the basis of work load units is perhaps not the most appropriate one, and you are suggesting that would be more appropriate would be activity analysis. Could you just perhaps expand for us on what precisely that is, that may be something that you would like to focus on in written submission to the Commission.

MR. WHELAN: Typically what we would suggest at this particular analysis time, would be to check the regulatory and volume of movements and the utilisation of Aer Rianta's facilities for those movements, and an overhead allocation, shall we say, could then be made against that level of activity.

Obviously the biggest difficulty would be trying to, shall we say, agree to a level of overhead allocation, but if it can be clearly pointed out that the pallet load of cargo can be moved at the cost of moving one particular passenger, then in terms of an activity that is obviously gives a basis for, shall we say, an allocation of overhead. So it

would be along those particular lines Commissioner that we would recommend.

Can I just, on the clarification point, Commissioner, raised the point that the difficulty obviously -- and I understand what the Commission is trying to do with regard to cargo -- the difficulty

is that when one allows a maximum charge in any area the difficulty is that commercial negotiations with the provider of the service then, shall we say, can be very easily taken away from the people buying the service insofar as he can then go up to that level on the basis that he is entitled in law to do so, and doesn't have to negotiate. That is our concern on that front. The other one that I would say, and it depends on exactly how Aer Rianta's internal books are broken down, I would be very surprised if Aer Rianta currently get no commercial benefit from the movement of cargo.

MR. PRASFIIKA: No, I understand that point, what I am trying to say to you is that we are not setting maximum charges. It is the amount of charge which would result from the regime which we had proposed to implement, does not define what the cargo charge is going to be. It is not correct to state that the Commission is proposing a maximum cargo charge of 49.6. The cargo charge, in fact, is not set by our regime. What are doing is setting the overall yield which sets the revenue cap for the regulated firm, but no individual charges are set, whether passenger charges, cargo charges, landing, take off, parking. The only cap is one on total overall revenue. So we have not set maximum charges on anything other than a total maximum cap.

MR. WHELAN: Commissioner, it maybe the language and that obviously would be, shall we say, something that needs to be watched very carefully in the final determination by the Commission, but if Aer Rianta, the operator can take an interpretation that using your maximum allowable charges and applying it straight per passenger moving through, and that would be a very possible outcome of your settlements, he could equally do the same on cargo. That is not to say that he will, but he could and that my concern.

MR. PRASFIIKA: No, I understand your position, and the one thing I would direct you to would be to the end of the Aer Rianta submission which they made in relation to our first set of consultation papers, where they actually put out the proposed structure of charges for going forward. So that may give you some indication of at least the type of regime which

you are likely to find after the implementation of a yield approach.

MR. GUIOMARD: I have one question. This issue of how exactly to balance cargo and passengers was also discussed yesterday, and the Commission is keen to have substantive material from those who think that the balance in the formula as it stands isn't adequate. So I was just wondering, will your Association be able to provide us with argumentation numbers and so

forth which would justify a move away from the ratio in the draft determination towards something that you would consider would be more reflective of the cost of the two kinds of service provision?

MR. WHELAN: I would say that a consultancy commission or assignment would have to be given to definitively actually work it out. The system could be indicated, but the actual cost because the cost structures aren't, shall we say, transparent at the moment, it is impossible to actually work it through. There is old historic, shall we say, cost centres which no longer apply, and that is not just Dublin Airport, but many other airports internationally. Custom and practice allows chargeable headings under various headings. It doesn't necessarily apply to the actual volume of the activity anymore, or in fact sometimes the activity is vanished altogether. It applies also to airline charges as well in the cargo front. So that is one of the difficulties in this whole area. So when you are coming up with a new regime, to accurately, shall we say, reflect the cost allocations you will probably have to carry out a mini-consultancy on the sector.

MR. BURKE: Just a point of additional clarification. There is reference made in your presentation to the maximum charges being five times higher than the charge

requested by Aer Rianta, I think it is important to point out that that application is an application by Aer Rianta under the Ground Handling Regulations which is, as I am sure you know, a completely separate and distinct regime from the one that we are operating under today which relates to maximum levels of airport charges. It is a separate regime, there are separate rules in relation to what the Commission must have regard to in either approving or disapproving those charges, just to point that out.

MR. WHELAN: That is a very critical point to our whole submission, and we would need that in writing from the Commission so that we understand that fully, absolutely, and also that the two prime interfaces

between Aer Rianta and the importers and the exporters, Service Air and Aer Lingus Cargo also understand that, because their understanding is my understanding. And our understanding when we wrote to the Minister was that -- and if it is not under this, shall we say, regime we had written communication with the Minister saying it would be handled by the Commission, and we would want to know at what stage you are going to put that one out for determination and the Minister clearly indicated it would be determined by the Commission.

MR. BURKE: Just to say of course we would be happy to confirm

our understanding of the two separate regimes to you and your members directly. It is correct to say there is an application which was put before the Minister, which is now with the Commission, so that is a matter that, yes, we will be dealing with. At present we are dealing with airport charges, but there are two separate regimes and there maybe overlapping between them, but certainly we are more than happy to write and give our understanding of what those regimes require and what the differences are between them.

MR. WHELAN: That is absolutely essential we get that, because otherwise we are into a situation where not alone have we this additional charge potentially coming from the operator, but we have also got another additional charge associated with the way you are interrupting the ground handling, potentially coming. So this would be two additional charges which the regulator would be allowing the operator to, if he so desired, to charge through. So it is very essential, I make the point, I think we need very urgent and rapid clarification of that, and we also will have to sit down and discuss it fully with the people who on behalf of the exporters interface with Aer Rianta because they are not aware of this either, and they are the people who work on our behalf.

MR. BURKE: Certainly, just for

everybody's benefit.

Under the Ground Handling regime, which is a separate series of regulations based on the European Director. The airport operator is legally entitled to recover a charge for access for what are described as airport installations. Now there are certain rules in place in relation to approval, but there is a separate regime there and as I said we are more than happy to explain our understanding of the two separate regimes to you and your members.

MR. WHELAN: That is absolutely critical.

MR. PRASFIIKA: Okay no further questions.

Thank you very much.

Okay, so we have Limerick Chamber of Commerce
11 o'clock.

(SHORT BREAK)

PRESENTATION WAS MADE ON BEHALF OF THE LIMERICK
CHAMBER OF COMMERCE BY TADHG KEARNEY AS FOLLOWS:

MR. PRASFIKA: Okay, I think we will
begin again. Would the
Limerick Chamber of Commerce, if you could just
introduce yourself for the record.

MR. KEARNEY: Thank you Chairman. Good
morning, my name is Tadhg
Kearney and I represent the Limerick Chamber of
Commerce. The Chamber of Commerce nationally has
11,000 businesses. It is the largest business
representative organisation in the country and
spreads throughout 58 centres in the country, and
the Limerick Chambers of Commerce is the largest
business organisation in the mid-west of Ireland.

Myself personally am the member of the Board of the
Chamber and a past President of the Chamber. I have
been for a number of years Chamber spokesperson on
Shannon Airport and on air transport issues in
general. I am also a past-chair and a member of the
Chambers of Commerce of Ireland Air Transport Unit
and for the number of years the Irish representative
of a thing called Fatuate, which is a consultant
committed to the European Commission on the
consumers aspect of air transport also. And finally
I also represent the Chamber on the Shannon Airport
Market Consultant Committee, a committee set up by

the Government a number of years ago.

Now Chairman, I am making a number of assumptions
this morning, you have been listening to speakers
for the last day and a half, so I don't intend to go
into a long preamble describing what an airport is,
what an aeroplane is or those type of things, so
please understand that I am going to move pretty
straightforward.

I would also like to say that I welcome the openness in which you are going about your consultation. We think it is a model indeed for other public policy issues. We don't see that kind of transparency very often in this country our European cousins are far better at it and our compliments to you on that.

Also I suppose, wearing a consumer hat, we particularly welcome your definition of the customer where you put the passenger first, because very often in air transport issues when the customers are defined you discover, it is airlines and providers of services rather than the passengers themselves, so that is a good point.

Definitions from our own area, business -- the Chambers Commerce sees business as a consumer of services. It is often assumed that being a business representative organisation that we are looking

after the provider. The vast majority of businesses in this country are small, medium size and micro businesses, and we see them as being the consumer for air transport services, and in terms of the airport and Shannon Airport in particular, we see the Airport as being the Airport for the whole west of Ireland and not just for the Midwest.

Shannon Airport is something that is not always realised, I think, on the east coast, the importance of Shannon Airport infrastructure of the region. We believe it is the single most important pillar for growth in the Midwest. That issue I can not emphasis enough and I shall return to it after a while.

We would take the view that the objective from the economical development point of view, and for regional development point of view should be to get the maximum number of passengers throughput at the lowest possible cost, consumate with running a viable self-sufficient national airport network.

Therefore, we obviously favour efficiency. We believe that Shannon should aim to be an outstanding low cost provider of airport services, driven by efficiency. We will say that ancillary services at the airport should be a bonus to the airport, not a drain on the airport. We welcome the critical

examination of the (inaudible) approval which you have referred to in your report, and which was also covered in some detail in the Warburg Report a couple of years ago.

However, we think that an examination of that report of capital expenditure should not just be based

purely on a business model, but should also take a view of the wider regional development and would issue its view of our economy.

And finally we welcome the Commission's view that the parties should be consulted, not just on the approach to be adopted by the Commission, but also on the Commission's interpretation of the statutory requirements, and I shall return to that also later on.

Now put simply and we really quite bluntly, our view on the draft decision that you have brought forward about the maximum charges to the airports, put very simply the entire business community and I would suggest all partners in business, workers everything across the midwest west of Ireland would be of the view that the airport, the charges -- the maximum charges at Shannon Airport should not be greater than Dublin's, and they should not be the same as Dublin's, but that they should be lower and significantly lower than Dublin's. It is national

policy in this country to have balanced regional growth, that the prosperity of the country should be shared by the entire country, and that if there are differences in that area that there should be pro-active positive economic activity to make that happen.

We believe that the proposal in its present form, if it was implemented to its maximum or interpreted to its maximum would be bad for regional development and regional growth, it would be bad for business and for tourism, it would be bad for the consumer interest and it would be bad for jobs. In other words we believe that there is nothing in this draft decision that is in our favour or our interest in the midwest or west of Ireland.

15 years ago the European Commission started off liberalising the airlines in Europe. It is our belief that the liberalising of the airlines has been one of the pillars of which the Celtic tiger has been built. There have been static growth in Dublin Airport and Aer Rianta in the previous ten years peiord '75 to '85, and the market in the following 10 to 12 years trebled in size after liberalisation. We now have one of the most competitive airline markets in Europe. We now come to the airports and we recognise, of course, that a regulator can only be a proxy for competition.

In 1998 the Chamber in consultation with other business groups looked to buy property at Shannon Airport and we realised that Shannon Airport's

business over the previous 10 years, from '87 to '97, had not been performing well. And if you look at that chart there -- and there is a good point to this and I will come to it shortly -- if you look at that chart you will see that the national, international passenger business out of Ireland in terms of traffic grew by 100% to 200% between '87 and '97. Dublin's business grew at 190%, Cork grew at 117% and Shannon's business in those 10 years grew by 83%. In other words we under-performed the market growth by 50%.

At that stage we were of the view -- at that stage between '87 and '97 Dublin's share of the traffic had grown from 68% to 77% and Shannon's share had gone from 24% down to 14%. And in 1998 we reckoned if we continued the figures forward then we would have a situation where Shannon's share of the business would shrink to 8.9% of national traffic, that Dublin's will increase to 82%.

At that stage we got together a group and we brought a lot of pressure to bear, particularly on Aer Rianta and on the Government and everyone else and we set out a shopping list of what we wanted at

Shannon Airport. We wanted new services, we wanted new routes, a higher frequency and you know, we got all those things. And what happened in the following three years?

In the following three years the traffic growth in the three State airports in the following three years '98, '99 and 2000 grew by 36%. Dublin grew by 37%, Cork by 41% and Shannon by 43%. So whereas in the previous 10 years we have under-performed the market by 50%. In the 3 years since 98 we have outperformed the market. We have been the fastest growing airport of the three State airports. Why was that? That was because public policy decided that there should be positive discriminatory decisions taken to bring businesses to the west of Ireland, and there was a marketing package put together for Shannon airport funded through Aer Rianta for about €2 - 3 million a year which made that possible. We believe that if the decision that has been proposed here is implemented, it will reverse that. The largest private sector employer in Ireland is Dell Commuters in its 5,000 employees. They would not be in Limerick or the Midwest only for the fact that we have national airport that provides services going east and west. And we have to have an airport in our region and an airport authority that has discretion to have charges that discriminate favourably for the regions and for the

rest of Ireland. And we believe that the proposal

that is here is acting against that interest.

And even after all that reversal of the negative trend that took place, we still have a situation where in the year 2000 of the U.S. traffic, Shannon had 41% and Dublin 59%. Of the U.K. traffic Shannon had 8%, Cork had 10% and Dublin had 81%, and of the European traffic Shannon had 6%, Cork had 7% and Dublin had 87%. 87% of people of Ireland don't live in Dublin, or in the Dublin area. 87% of the people don't need to be forced into the Dublin area and we feel that the charge structure that is being proposed at the moment will make Shannon and possibly even Cork unviable as airports.

Now I am not an economist so you will forgive me if my interpretations here are a bit naive. The maximum proposed charge for Dublin is ú4.96, the maximum proposed charge for Shannon is ú6.05 which is really 2% more than Dublin's, and the maximum proposed charge for Cork is ú7.15 which is 44% more than the charge proposed for Dublin. There was also a proposal that consultation be given to have a second cap at Dublin Airport, a lower cap. Now we support the principle that airlines should be free to purchase the level of service they need from the airports. In other words low cost carriers, if they don't want to purchase a full range of services

should have the freedom to purchase a less degree of services from the airport. However the report proposes having a sub cap, but only at Dublin, it does not make a provision at this stage -- but a proposed consultation be given to having a sub cap at Dublin Airport, but not having a sub cap at Shannon or Cork to offer lower fares.

Now assuming that the sub cap -- and I am extrapolating here -- is 30% lower let's say, than the current proposed maximum charge at Dublin Airport, that would bring the maximum cap down to the lower cap at Dublin to ú3.47, but there is no sub cap proposed for Shannon or Cork. So you now have a situation where Shannon's charge at maximum charge can be 74% higher than Dublin's maximum charge, and that Cork's maximum charge will be 106% greater than the proposed maximum charge at Dublin.

We believe this is a very dangerous approach in this particular situation. We recognise that the regulator or the Commission is acting in the interest of the consumer for the public interest. However Aer Rianta is also a State company owned by the taxpayer and the consumer and also has, as I would suggest, public service or a public service obligation, and it seems to us that when the Commission was originally thought up, it was thought

in terms of an Aer Rianta IPO. The IPO has not

taken place and I would suggest won't take place now for some time, if at all. And therefore the fact that both the regulator and the Airport Authority is still in public ownership, it seems to me that a more liberal interpretation could be taken of the Act rather than what we believe at the moment, is our interpretation. I hope my remarks don't seem to be confrontational, I am just being quite blunt, but have to tell you that this is a unifying exercise in the midwest across the divides, across of the different various groups, whether trade unions, workers, employers or businesses or whatever, so we are very concerned about the potential for this.

We have also noted that you have used a benchmarking process in your proposal, and it seems to be based on the size of the airport. What we respectfully suggest is that if you actually look at a number of the airports that you are using as benchmarks, that they are generally in high density population areas. Ireland has one of the lowest densely population in Europe and indeed I would think that perhaps parts of Ireland have the lowest density population in Europe. We have managed in the midwest and the west of Ireland to create a successful national airport handling two-and-a-half million passengers a year without a large capital area. That is because, I would suggest, because we are dynamic, but also because the help over the years to ensure that can

happened, and that has brought huge profits in industry and work the west of Ireland. And regional development which is now back on the Government agenda hugely in the last two years. It has been pushed forward very hard. We respectfully suggest the interpretation of regional development in the report is not the interpretation of regional development which is understood by many of us -- many of us who live outside the greater Dublin area. We would suggest that the charges and the approach to airport costing must take due regard for the region in which it is based, and the effect those charges would have on those airports.

Airports are not destinations, they are not islands, they are not self-sufficient businesses, they are simply gateways to regions and other parts of the country.

So in conclusion I will again say to you that we believe this structure is the wrong approach to take, we think that there should be more flexibility for cost subsidisation within Aer Rianta. We believe that that would be a good public interest and it would be good for regional development, it

would be good for tourism and for business. It would be good for customer interest and it would be good for jobs, but the present structure we believe in any form whatever, has the potential to be

extremely detrimental for our region and the west of Ireland. Thank you.

MR. PRASFIKA: Thank you very much Mr. Kearney, thank you for going early to facilitate us. I am very pleased to know that I am uniting people across the political divide. I hope members of the media are here and print that tomorrow. Just a few questions please. I think you stated, did you not, that you felt that the charging structure, if I can characterise it, are the maximum allowable charges at Shannon, would make Shannon unviable?

MR. KEARNEY: Potentially unviable. If they are implemented -

MR. PRASFIKA: Could you characterise them as potentially unprofitable to Aer Rianta if they were implemented?

MR. KEARNEY: I think I know where you are coming from, what you are suggesting is that if Aer Rianta made the airport -- had charges, it would make the airport unviable. I think what it might be that it would stop the growth pattern that we have had at the airport in the last 3 years. We have reversed the trend -- I think we might go back to static growth at the airport, and I think that it was particularly fine that trying to promote new services in the airport if we did not have a positive price advantage over Dublin. Dublin's prices seem to us,

to be set low compared to Shannon's.

MR. PRASFIKA: You saw through my transparent line of questioning, is that if it was unprofitable then that itself would put some discipline on Aer Rianta, not to put those charges where you would want them. All we are doing is setting maximum charges, we are not forcing anyone to raise charges here.

MR. KEARNEY: We think that any model that has the maximum charges at Dublin Airport 22% under Shannon's and 44% under Cork's is potentially flawed and dangerous.

MR. PRASFIKA: I understand, you make that point. We spoke about the charges, have you examined the respective cost structures of the airports?

MR. KEARNEY: We have been involved in Shannon Airport for a long time, but if you are asking me did we undertake a detailed cost analysis of the Airport, no. Partly because it has been so difficult to get out of Aer

Rianta detailed costing figures. We have, for example, been very involved with the likes of Warburg & Reed when they were doing their report, which I think was the first time when there was a detailed examination of the cost options of Aer Rianta.

MR. PRASFIIKA: As you know it as our

legislation requires us to facilitate the development and operation of cost effective airports. If you have airports with different cost structures, does this not mean there is some reason to have different pricing structures?

MR. KEARNEY: Yes and no, we have a regional policy in this country which, for example, the IDA have been told that they must put two-thirds of all jobs into the NW regions. The Government in this country takes a view that it is pro-active in spreading the prosperity throughout the country. The airport in Shannon is a major infrastructural emphasis for that, and we would take the view that the airport, in the present model Aer Rianta being a unity State, not a company, that there is a case to be made that the airport should be treated more pooled, not totally pooled, but there should be transparency, there should be more efficiency at Shannon Airport and that if the structure in Aer Rianta changed in IPO privatisation or an unbundling, then that would be a different scenario, different situation.

MR. PRASFIIKA: Is it your position that there should be an explicit cross-subsidy from users from Dublin Airport to Shannon?

MR. KEARNEY: Well you state in your report, if I can paraphrase it, that if you take a subsidy from

airport A and give subsidy to airport B, you are then adding a benefit to airport B but you are taking a benefit from airport A. There is an assumption in that, or there seems to be an assumption in that, that the benefit to one is equal to the lack of benefit to the other. We would suggest that the benefit to one is hugely greater than the, if you like, the opposite to the other. That there isn't an equal balance between the two, and in fact the cost to one airport, particularly one like Dublin, might be very small but it could have huge benefits to somewhere like Shannon, or indeed Cork I'm sure.

MR. GUIOMARD: I have a number of comments and questions.

Just on the very last point that you have made, what you say might perfectly well be true, but to date the Commission has not been given evidence to suggest that it is true.

MR. KEARNEY: The last thing I said in my presentation or just now?

MR. GUIOMARD: The point you made now about whether moving a block of money from one airport to another, the impact on the respective regions, it would be helpful to us if to support the case you are making you could substantiate what the consequences for the regions would be of a transfer of that kind.

Otherwise we are all arguing about what might be the case without having hard evidence to indicate what the position actually is now.

MR. KEARNEY: You have had a number of reports before you -- some of them are listed down there, the Alistair Tucker Report written a number of years ago, for example, by Regional Authority Shannon Committee. There has been a whole series of reports written over the last 10 years and I made that assumption at the start of my presentation that we can take that as having been read --

MR. GUIOMARD: You may indeed make that assumption.

MR. KEARNEY: -- those reports have consistently showed the huge benefit of the airport to our region, and for an airport to be viable in a very small catchment area, it needs some, if you like, intervention to its particular extra advantages.

MR. GUIOMARD: You are right to say that we have three reports made available to us by Aer Rianta which say in the case of each of the three airports that there are very substantial benefits to the region from the existence of that airport. But that then leaves us in the position which we set out in our report which is with the -- let me put this in another way because I want to make another point to you -- you

said in your presentation this morning you used the phrase "public service obligations" which you felt should be present as between the treatment of regional airports and so forth.

MR. KEARNEY: I don't agree with the term "regional airports"

by the way.

MR. GUIOMARD: Pardon?

MR. KEARNEY: I don't agree with the term regional airports

apply to Cork and Shannon.

MR. GUIOMARD: Fine, okay. The difficulty we have is that public service obligations are not an instrument made available to the Commission in the legislation to enforce the kind of effect that your discussing

about. The only option we have is the setting of -- capping revenues that the airports collect.

MR. KEARNEY: But my understanding is that the Act does not specifically require you to treat the three airports as three totally separate vehicles, and there is a discretion level within it. I would illustrate the point -- by the way when I use the words "public service obligations" I mean it in a broad sense, not specifically in a sense about airlines -- and I would suggest in that context if the legislation was written and agreed by legislators in the Department of Ireland, and I have spoken to a number of them in

the last 10 days who were involved in this Bill, and none of them I would suggest envisaged an interpretation that is now being put on what they intended to do. There may be a flaw in what they did, but certainly the intention was not there to do it. And there was a universal agreement in this country that we are pro-regional development, because if you take that argument to its most narrowest extreme, we would have no phone lines or no ESB lines in Connemara. We are a country and we are society in the economy, and it is in the interest of economy that we would have balanced regional growth. And there is a positive economic benefit from that. We should have been shown the reports that -- not just in the Aer Rianta Reports, but in the Alistair Tucker reports and other reports that we have shown you.

MR. GUIOMARD: Okay. Just again on a language question, you spoke about obviously to airlines and ultimately to passengers, airport charges are a cost, and the charges in some sense reflect a different block of costs which is the cost of running the airports. Now as between the three airports that are under discussion here, the charges that the airport operator establishes arise from the level of traffic, the aeronautical income which can be earned from that depending on what the charges are, the commercial income which can be earned from that, and

then the costs -- the expenditures of the airport in the operating area and in the capital area. So the reason that there are three different charges in the draft decision is that the situation of the three airports is very different as regards what the aeronautical income would need to be given the expenditure plans on the current side, the expenditure plans on the investment side and the commercial income which is actually earned in that facility. So we have taken account of those differences which are questions of fact in reaching our decision and it is in a way, you know, the numbers you presented us with reflected differences

in the situations at the three airports

MR. KEARNEY: Right.

MR. PRASFIKA: Now nothing in what we have proposed places a restriction on the airport operator at the company level moving funds around its different airports. You have asked for cross-subsidies, but there is nothing to restrict Aer Rianta to subsidise an airport from its revenues whether from that airport or from somewhere else to fund its activities, whether at that airport or somewhere else. So there is no prohibition on cross subsidies in the decision that we have made.

MR. KEARNEY: We take that point, but at the end of the day the decision boils down to 21 lines on page -- sorry, 9

lines of page 21 of the report, and there are three figures in that, okay. We have to take those three figures as maximum figures, as being real figures. We realise that they are maximum charges not likely real charges, but take it at its most extreme, we are talking legislation here, we are talking about a process that is quite technical and legalistic. If that model was interpreted at its maximum, it has huge detrimental potential for our region. And I showed you there when we changed the sinc in the last three years how, we manage to turn ten years of market decline into the years of -- sorry market share decline, into three years of market share growth. And we believe that this process at its maximum puts that under threat.

Not being more technical in my answer, but you have made the point about the capital expenditures and about the charges, we are aware that they are not the charges being recovered by Aer Rianta are perhaps one of the lowest of any airline of an airport authority in Europe. I think only 17% of their income comes from aeronautical charges. We are aware of that, that is the historical model that we have. There is now a proposal that would possibly be radically changed. If you take what you are suggesting at its most extreme there would be no roads going into Connemara. Now I am not suggesting best of Ireland is that deprived, we can show and I

believe that the reports have shown that the benefits, for example, 5,000 Dell jobs in Limerick would not be there if we didn't have a national airport, and we would not have a national airport in Shannon providing daily shipping services going east and west if there had not been positive discriminatory public policies in implementation over a long number of years, and I believe that that is good for growth. The region as an economy as a whole, that takes pressure off Dublin. I may also

make the argument that it might postpone -- not postpone capital services in Dublin, but airlines now will be starting to find that before they all wanted to go in Dublin, maybe now they will want to go to somewhere like Shannon where they haven't got the congestion and the hassle and the aggravation. And the maximum charges which you are proposing we have to assume that it is possible that they may be implemented. Yes, they may not be implemented, but the decision of dual rate is based on those lines, and taking the most narrow interpretation of your proposal then we see huge dangers in it.

MR. GUIOMARD: There was just one final clarification or comment I wanted to make. You presented two basis for comparing charges in Cork and Shannon with Dublin. The level in our report and the level involving a lower cap, and from what you say to us I understood that you had interpreted the lower cap to be a way

to allow for possibly lower cost airlines and so on to utilise Dublin at the lower cost. Whereas we sought to explain in the report that the cap relates to having two charges for the runway reflecting congestion at different times of the day.

MR. KEARNEY: Okay.

MR. GUIOMARD: And it is not there at present time for Cork and Shannon given the different pressures on runway of those two airports. So it is more specialised, I think ... (INTERJECTION)

MR. KEARNEY: Is that more in terms of congestion periods than non-congested?

MR. GUIOMARD: Yes.

MR. KEARNEY: Well we would have also taken the view however, that airlines should also have the choice of being able to purchase services from the airport that they require. That most services have the choice of purchasing a full range of service at low cost carrier should have a choice of purchasing an alternative rate of services.

MS. MOLONEY: I'm sorry, on that point you mentioned a 30% reduction for a lower ... (INTERJECTION)

MR. KEARNEY: I was just using that to use that as -- I was interpreting the cap incorrectly.

MS. MOLONEY: Okay, thank you.

MR. KEARNEY: But it does again create another -- nonetheless the arguments are up to a certain point in that if there is a lower cap for off-peak periods in Dublin, it makes the maximum even more significant between Cork and Shannon, and Dublin.

MR. PRASFIKA: Okay Mr. Kearney, thank
 you very much. Our next
representation is 12 o'clock from South West
Regional Authority, they are not here at the moment.
They are due to be here at 12 o'clock, so we will
have to adjourn until then, thank you.

(SHORT BREAK)

MR. PRASFIKA: The South West Regional
 Authority are here and
they consent to accommodating us by starting early.

PRESENTATION WAS MADE ON BEHALF OF SOUTH WEST
REGIONAL AUTHORITY BY JOHN McALEER AS FOLLOWS:

MR. McALEER: Thank you chairman. First
 of all I would like to say
thank you for the opportunity to make this
submission to the Commission. My name is John
McAleer and I am Director of the South West Regional
Authority.

The South West Regional Authority was established
under foot of the Local Government Act, 1991 -
Regional Authorities (Establishment) Order 1993, is
the NUTS 3 Regional Authority covering the counties
of Cork and Kerry and the Cork County Borough. The
region has a physical area of c. 12,500 sq. km. and
a population of approximately 560,000 people.

The Authority has, inter alia, responsibility for
Strategic Planning, coordination of public services
and also to advise the Government on the preparation
of the National Development Plan and the operation
of the European Community Support Framework. The
Authority is represented on the Monitoring
Committees for the various Operational Programmes
under the National Development Plan.

As an integral element of its statutory functions,
the Authority in 2000, established the Cork Airport

Consultative Committee with representation of key
state and private sector agencies in the region.
The role of this committee is to promote the
development of Cork Airport as a key element of the

regional physical infrastructure.

In 1996, the in Regional Authority's Strategic Plan 1996 - 2001, the Authority clearly identified the importance of Cork Airport to this region, noting the importance of access points for foreign tourists, as essential to maintaining the importance of the tourist industry, which is a key element of regional GNP.

The importance of Cork Airport to the regional economy was again highlighted in our 1999 submission for the National Development Plan and Community support Framework for 2000-2006 wherein it was noted and I quote:

"Air access is a very high priority for the Regional Authority. The continued development of the South West is dependent on excellent levels of national and international access. The marketability of the region in terms of inward investment and tourism development is highly dependent on the degree of access through the two airports at Cork and Kerry. Cork Airport has been adept in its response to the dynamic forces that influence the industry in which it operates. In recent years the most notable development in this regard has been the completion of the final phase of the new passenger terminal building in 1994. This addition has greatly

enhanced the Airport's ability to handle and increasing volume of passenger traffic. A fitting reward to mark this development is the fact that 1996 saw Cork Airport handle in excess of 1 million passengers for the first time.

As the major airport in south Munster, Cork Airport generates a considerable amount of economic activity in the South West Region. The Airport's presence plays a major role in aiding the establishment of industry in the area by providing an important access point for business people and a gateway to foreign markets for actual and potential exporters from the region. The importance of this aspect of the Airport is seen through the continuing expansion of freight handling facilities and by the fact that nearly 50% of all passenger traffic is

business related. Furthermore, tourist traffic through the Airport also has a substantial economic impact in the region.

Cork Airport has a strong potential to attract transatlantic services from the USA and these services would greatly enhance the attractiveness of the South West Region as a tourism location and more importantly as a region for inward investment."

Our report then went on to make recommendations in regards to an investment programme to meet the ongoing needs created by the incremental growth of traffic through Cork Airport since 1996.

It then identified the strong role for Cork Airport in the promotion of a greater Regional Spatial Balance and noted that:

"Growing levels of congestion at Dublin Airport can be alleviated through the greater use of Airports such as Cork and Kerry for direct flights, avoiding the over concentration on the Dublin

hub. This would contribute to the attractiveness of the South West as an investment and tourism location."

The economic importance of Cork Airport to this region has been identified in a recent report by Kavanagh, O'Leary and Shinnock entitled "The Role of Cork Airport in Regional Development" which estimates that the airport has doubled its contribution to the regional economy since 1995. This would suggest that the airport now contributes approximately €320 million per annum and supports the employment of up to 7,000 in the region.

The South West Regional Authority notes with considerable concern the proposals contained in the Commission for Aviation's Draft Determination of Airport Charges and we question the rationale of your approach.

We submit that this determination will, if adopted, constitute a major constraint on the growth and development of Cork Airport and consequently on the regional economy of the South West.

Furthermore, we strongly contend that the draft determination clearly fails to have due regard to the terms of the Aviation Regulation Act, 2001 wherein under Section 33 of such Act it is required that in relation to the making of a determination in respect of airport charges, the Commission shall aim

to facilitate the development and operation of cost-effective airports which meet the requirements of users and shall have regard to inter alia, the contribution of the airport to the region in which it is located, the level of income of the airport authority from airport charges at the airport and other revenues earned by the authority at the regulated airports or elsewhere, the level of quality of services offered at the airport by the airport authority, and the reasonable interest of the users of these services, the cost competitiveness and operational efficiency of airport services at the airport with respect to international practices.

Section 36 of the Act additionally requires that in making a determination, the Commission shall aim to facilitate the development and operation of safe, cost-effective terminal services which meet international standards and shall have due regard to the level of the Authority's income from the aviation terminal services and other revenue earned by the authority generally, and the cost competitiveness of aviation terminal services with respect to international practice.

I would now like to address our submission under those headings. If we take the first one, the contribution of the airport to the region in which it is located.

The economy of the South West is largely based on two major sectors, both of whom are highly dependent on the services provided at Cork Airport. These sectors are (1) Internationally Traded Multinational Industries in the Chemical, Pharmaceuticals and Electronics Sectors, and (2) Tourism.

The importance of these industries is clearly demonstrated by the divergence in the south West between the value of Gross Domestic Product (GDP) and Gross National Product (GNP), where GDP is approximately 20% higher than the level of GNP.

This disparity, which is the most notable in the State is due to the activity level within the region of the foreign owned, airport dependent, multinational sector. This sector provides 49% of regional industrial employment, produces 23% of all value added in the State, and is particularly concentrated within the Cork area.

The South West Region with 116.3% of the national average in terms of GDP has only a 96% average of GDP -- of GNP, I'm sorry. These figures highlight our dependence on airport related economic

activities.

The South West Regional Authority strongly contend that any action taken by the Aviation Commission directed at undermining the viability of Cork Airport constitutes a direct threat to the overall economy of this region with potentially severe consequences for the overall regional economy. This statement must be regarded in the light of the Multinational Sections importance, the inward tourism revenues and the dependence of the indigenous non-traded sector of the regional economy on the former sectors.

I would like to refer to the Government's commitment to Regional Spatial Balance.

In the Irish National Development Plan 2000-2006 at paragraph 2.1 it states:

"The following key national objectives will underpin the strategy for the National Development Plan 2000-2006."

These are:

"Continuing sustainable national economic and employment growth; consolidating and improving Ireland's international competitiveness; fostering balanced regional development; and promoting social inclusion"

Furthermore the National Plan also referred to the Anti-Poverty Strategy which had also identified marginalised rural communities throughout the country. While these are more prevalent in the

Border Midland and West Region, the Southern and Eastern Regional Development Strategy also identifies specific remote and disadvantaged areas in that Region. These remote and disadvantaged areas were specifically identified as being areas of West Cork and South Kerry, the Duhallow area of North Cork and parts of County Clare.

Development priorities for the South and Eastern region which is at the NUTS 2 level, include actions to consolidate and build on the region's economic performance, especially regard employment and reduction long term unemployment, thereby maintaining the region's key role in national economic competitiveness. Addressing urban congestion and general bottlenecks to growth, particularly as regards economic and social infrastructure and human resources. To further develop counterbalances to Dublin, relieving

pressures on the capital and its hinterland, and distributing growth more widely throughout the region. Support the further development of agriculture, agri-business and the seafood sector. Promote social inclusion in deprived urban and rural areas, and maintain a viable rural economy.

Again at paragraph 3.15 referring to the role of gateways in development, the National Development Plan states that the key determinants of sustained

economic performance both nationally and at regional level, the top most priority is stated as being ease of access to domestic and foreign markets.

The plan notes that the area's best positioned to underpin development are generally the larger urban centres such as Cork City, which also serve as development gateways. These are centres which have strategic locations relative to the surrounding territory, possess good social and economic infrastructure and support services and have the potential to open up their zones of influence to further development by providing transport links with contiguous zones. The common attributes of gateways is that they are the centres which are strategically placed to drive growth in their zones of influence, generating a dynamic of development which embraces the complementarity between city, town, village and country. Noting that critical mass is a key consideration in the evolution of such gateways, along with location and access to the wider domestic and international markets.

At paragraph 3.24 the National Development Plan notes that if overall Regional Development Policy is to be successful, it is essential that the existing engines of growth are not impeded by capacity constraints. As such, in fostering national competitiveness and balanced development across both

regions and in the more remote areas of the regions, the investment needs of existing large urban centres will have to be comprehensively addressed. In this regard the constrainings emerging in Dublin and, to a less acute extent, in the other large urban centres, i.e. Cork, Limerick, Galway and Waterford must be urgently tackled.

The South West Regional Authority views the proposals as contained in the Aviation Commissions Draft Determination as being directly likely to impede the growth of Cork Airport which is clearly a principal engine of growth in the South West Region, and as such it absolutely fails to respect one of its primary legislative requirements.

The second point I want to address is the level of income of the Airport Authority from airport charges at the airport and other revenue earned by the authority at the regulated airports or elsewhere.

The enabling legislation clearly offers an option to the Aviation Authority to take the costs at the three State airports into one operational till. The South West Regional Authority submits that in view of the fact that the Airport Authority, Aer Rianta, is a state monopoly to act in any other manner other than considering its operation costs and financing as unitary is a perverse means of differentiating

operating charges, and in this light constitutes and artificial input to regulation.

We also contend that earlier investments at Dublin and Shannon airports, which were funded by the National Exchequer are now mitigating against Cork airport which had suffered a number of delays in its capital investment programme.

We question the method of calculation in respect of the draft maximum costs proposed and we note that charges per unit are recommended, in the Draft Determination As follows: Dublin Airport $\text{ú}4.96$, Shannon Airport $\text{ú}6.05$, Cork Airport $\text{ú}7.15$.

The Authority understands that a very complicated process was undertaken by the Aviation Commission involving estimations of capital investment requirements at each of the three airports, estimations of projected passenger and freight tonnages passing through each airport.

We are concerned that despite such high levels of financial projections and calculations that the Commission emerged with the figures that possess an uncanny and incredible numerical association, in that the Shannon figure is a precise average of the Cork and Dublin figures. If you take the three sums that is mentioned $\text{ú}4.96$, $\text{ú}6.05$ and $\text{ú}7.15$, add them

together you get $\text{ú}18.16$, divide that by 3 and you get $\text{ú}6.05$ - the Shannon price. We think it would take some extraordinary coincidence for that to happen scientifically.

We submit that it is incredulous that any scientific approach to these calculations could result in such a coincidental figure. This clearly reflects the long standing approach to the sanctity of Shannon and the importance of continuing the dominance of the Dublin air hub.

Therefore, before finalising your determination we

request that the Commission publishes its calculations and demonstrates in a transparent fashion how these calculations were made.

The South West Regional Authority recommends that while the airports are under one ownership, that a common accounting approach should operate and that a basic approach should be that of operating one standardised cost basis, calculated on all capital investments, dating back five years and averaged over the three airports. We also note that the operation budget at Cork Airport for marketing is significantly less than that at Shannon.

We recommend that with a view to meeting Government stated policy of achieving balanced regional

development, that a levy or tax be placed on Dublin Airport and a corresponding subsidy be provided at Shannon and Cork Airports to allow for cheaper Airport charges at these two locations. We also recommend that Cork and Shannon airports be given identical marketing budgets.

The third item I want to address is the level and quality of services offered at the airport by the airport authority and the reasonable interest of the users of these services.

The South West Regional Authority acknowledges that the Airports must incur and fund a level of investment commensurate with safety requirements and meeting passenger and airline operator needs. As earlier stated, we strongly submit that, as we are dealing with a monopoly, these costs and subsequent airport charges should be applied globally and uniformly across the three airports.

To do otherwise would be to open a door to other monopolies or oligopolies, to begin to differentiate it in charges on a geographical basis. As an example the oil distribution companies could decide to charge 50p per litre of petrol in Dublin and 1.20 per litre in Donegal or Kerry. This would hardly be seen as being acceptable, yet we are confident that a suitably disposed economist could make a very

convincing argument in its favour.

To differentiate between the airports is no less unacceptable in the interest of users of Cork and indeed Shannon Airports.

The Commission in its Draft Determination acknowledges that Dublin airport is showing preliminary signs of some limits on its ability to add to capacity in a cost effective manner. We

would point out that Cork Airport is currently operating at capacity and will effectively be penalised due to delays in providing funding for its capital investment programme, which has been pursued by interest in this region for many years.

The fourth point relates to cost competitiveness and operational efficiency of airport services at the airport with respect to the international practices.

The South West Regional Authority believes that it is a significant admission by the Commission where at page 17 of the Draft Determination, it notes that

"different airport users make different demands on the infrastructure at the airport and may find that facilities of a lower standard adequately meet both their needs and the needs of their customers."

This is without doubt evidence of the Commission being influenced by a forceful airline lobby and in

one particular airport, namely Dublin. And it suggests that the Commission is being unduly influenced by this lobby in making its draft determination.

This has been done in the light of Dublin airport being adjudged to be operating at a level of efficiency which could be improved by 15% over the next five years, and Shannon at a level of efficiency capable of a 25% improvement over the same period.

Cork Airport operates efficiently and the Commission is giving a clear message that inefficiency will be rewarded while efficiency will be penalised by higher charges. We suggest respectfully, if an airline operator needs a reduced cost base at any of the airports, then the cost efficiency of that airport should be improved, rather than introducing artificial levels of subsidy through taxes on efficient operations at Cork Airport.

The next point I want to address is the level of the Authority's income from aviation terminal services and other revenues earned by the Authority generally.

The Commission suggests at page 15 that it is considering whether both capital and operating

expenditures arising from the new commercial investments at Dublin airport should be excluded from the regulatory till. An attempt is made to justify this approach on the basis of Dublin Airport

showing preliminary signs of some limits on its ability to add to capacity in a cost effective manner.

Here the Commission appears to be entering what could be described as internal management decision of Aer Rianta in relation to the operation of one specified airports - Dublin airport, and this results in creating an uneven playing pitch for the other airports - something which should in normal circumstances be anathema to any regulator.

To conclude Mr. Chairman, the continuing development of Cork Airport is a key driver in the economy of the South West region. The regional economy with a divergence of 20% between GNP and GDP, is highly dependent on the Foreign Multinational Sector and on tourism.

The proposed charges in respect of passengers and freight at Cork Airport will result in the Airport being uncompetitive in relation to Dublin and Shannon Airports.

If Cork Airport is uncompetitively priced, our major economic sectors will tend to move business away from Cork towards Dublin and Shannon. This will have a direct adverse impact on the economy of the South West.

The Commission is treating the airports as if they operated within open market operations, in reality the Airport Authority is a State owned monopoly and the Commission is introducing artificial considerations to influence the monopoly in its operations. We perceive that the effect will be for the monopoly to apply the maximum charges as permitted and continue to build on its hub at Dublin. This will directly serve to frustrate the Government's policy to cool down the Dublin economy and encourage investment to the other seven regions.

The costs at Cork Airport are going to be uncompetitive and this increase is being determined despite Cork being operated at an efficient level, whereas there are notable levels of inefficiency at Dublin and Shannon.

We call on the Commission to validate and introduce an element of transparency to the calculation of its cost findings, on the basis that the figures calculated which in spite of the complicated mechanics of CAPEX turn out to be an exact average price for Shannon, a bargain basement at Dublin and

Cork being severely penalised.

We call on the Commission to approach its task from the perspective of a level playing pitch and the conclusion arrived by the South West Regional Authority is that the Commission has failed to act in accordance with its legislative mandate. The South West Regional Authority therefore calls for a full reconsideration of the Draft Determination on airport charges. Thank you.

MR. PRASFIKA: That you very much. Thank you again for coming early and adjusting you schedule. We just have a few questions. I note on page 12 you are recommending that the Government put a tax on Dublin Airport and provide subsidy to Cork and Shannon. You understand that this is something that the Commission does not have within its power?

MR. McALEER: All I am suggesting Chairman, is that the Commission would perhaps recommend where we are coming from in this is that we think that as Aer Rianta is a monopoly it should operate one-price structure, and it is then up to Government whether to provide subsidies or taxes to influence Government policy in relation to balanced regional development. We would see airports as being one of the key elements in achieving balanced regional development because industry follows airports and airport services.

MR. PRASFIKA: No, I understand your point that you have made, that you are looking for a uniform pricing structure throughout the three airports. Is it also your view that there be uniform cost structure throughout the three airports?

MR. McALEER: Our view would be that there may not be a uniform cost structure, but as we are dealing with a monopoly and not on an open market situation this market is not free to entrants. I cannot tomorrow morning decide to set up another airport in competition with Aer Rianta, nor can anybody else in this room but perhaps one person, but otherwise I think that when you have one monopoly it has to be controlled and dealt with as a monopoly rather than being allowed it to actually pick and choose, or picking and choosing for it, should I say, as to how it charges.

MR. PRASFIKA: It is it the view of the Regional Authority that if Cork Airport was an independent commercial entity that it would not be viable?

MR. McALEER: No it is not. That is not the view of the Regional Authority. The Regional Authority have discussed this, we have a consultative committee on Cork

Airport. We feel that the viability of Cork Airport

could be questionable in relation to its independence, if it stood as an independent operator. Our view on that is because we feel that there are many connections now between airport operators and airline operators. And that unless you have a suitable private sector owner of Cork Airport, you may not be in a position to deal on world stage with airlines.

MR. GUIOMARD: Just couple of brief points. On page 14 you describe the relationship between the set of airport charges that we have proposed as involving artificial subsidies in some places, and then taxes in others. Subsidies, as I understand what you are telling us, in Dublin and taxes in Cork. Now I take it that you are using this language in a general rather than a very precise sort of way?

MR. McALEER: Well I am using the language that was used in your own determination where you state that the Commission would have an opportunity of either de facto taxing from airports for subsidising others. That language is used in your own determination.

MR. GUIOMARD: And we ruled that out, in that discussion we said we didn't feel that the legislation allowed us to do that.

MR. McALEER: No, the legislation doesn't allow you to do

it, but what I am suggesting is that as a Commission that what you should do would be that you should seek a uniform charge across the three airports as it is one company, and that it be a political decision afterwards whether to offer subsidies which will actually serve Dublin policies in relation to balanced regional development.

MR. GUIOMARD: On the particular point of the relationship, the mathematical relationship between the three charges, and the fact that Shannon proves to be precise average of the other two -- precise average of the three rather -- this is, in fact, a complete coincidence. Maybe a most unlikely coincidence, but a complete coincidence all the same, and I would just say very respectfully to you that if we had wanted to do what you suggest as the motivation behind it, we might have done something less crude than what you are actually suggesting there.

MR. McALEER: Well Chairman, all I can say on that is that if that is a coincidence I am going to buy a lotto ticket on the way out of here. Secondly what I would say, I would ask you ... (INTERJECTION)

MS. MOLONEY: Sorry, excuse me? Could I

come in on that -- being an accountant the idea of adding averages, they are three averages, you can't add averages. You have to multiply each figure by the work load units involved

in each airport.

MR. McALEER: No, with due respect, I think if the airline operator looks at the charges, he is going to look at the unit charge. He is not going to go into how many people go through Cork Airport and see what their take is. As to the averaging, you describe a very complicated process in relation to developing your figures. I understand you didn't accept capital expenditure figures put forward by Aer Rianta and that those charges were changed significantly. I understand you applied rates of return in relation to capital, and that you looked at historical investments, and all I would say is I ask you publicise you calculations. I find it very hard to see how you could get such a coincidental relationship between three figures if you involved some scientific application to their calculation.

MR. BURKE: Can I just ask you on page 11 you acknowledged that the Commission engaged in a very complicated process involving estimations of capital investment required, this is with reference to what we have carried out, and then on the following page you refer to it as incredulous, "we submit that it is incredulous that any scientific approach to these calculations could result in such a coincidence". I just want to be clear, is your position as per page 11 where you acknowledge that there is a methodical approach, or as per page 12 where you, as it were, regard the figures as incredulous. I see those two statements irreconcilable.

MR. McALEER: Sorry, on page 11 we said the Authority understands that the a very complicated approach was undertaken.

MR. BURKE: Do you accept that we did?

MR. McALEER: No I think maybe we have a misunderstanding in that situation. Our understanding is that you did do it. That is not to say that we accept that that is how it worked.

MR. PRASFIKA: No further questions, thank you very much.

We are adjourning now, and we are adjourning definitely until 2 o'clock.

(LUNCHEON ADJOURNMENT)

THE HEARING COMMENCED AFTER LUNCHEON ADJOURNMENT
WITH PRESENTATION FROM RYANAIR BY MICHAEL O'LEARY,
AS FOLLOWS:

MR. PRASFIKA: In the afternoon session
we have Ryanair which is
actually an airline. We haven't seen too many of
those here, and they are most welcome. So we give
Ryanair the floor now.

MR. O'LEARY: Thank you Mr. Prasfika,
for the purposes of the
presentation hereafter I will call you Bill.

Firstly, thank you for the forum to follow up on our
submissions to the Commission of Aviation
Regulation. As you know, Ryanair has been to the
forefront of last five years campaigning against the
monopoly type pricing and inefficiencies that
prevail at Dublin Airport. One of the difficulties
we have always found is there is very rarely an
opportunity to air these issues, because either the
Minister or her civil servants, or the monopoly
themselves will continue to duck. So thank you in
advance for the opportunity - that's the good news.

The bad news is that the draft report from the
Commission of Aviation Regulation, in our view,
fails utterly to achieve the requirements set out in
the legislation. I thought it would be useful to

start against the back up of the legislation.
Section 33 states in making a determination the
Commission shall aim to facilitate the development
and operation of cost effective airports which meet
the requirement of users. It doesn't say meet the
requirements of the airport. It doesn't say meet
the profitability of the airport, it doesn't say
anything about the airport in essence, that is what
we are here for today. The draft report as we have
seen so far fails on the hole number of areas to
either meet these requirements, certainly to meet
the requirements of users which in almost all cases
have been ignored. And as a result and unless there
is a dramatic change in the final report, we believe
that Aer Rianta's high cost grossly inefficient
airport monopoly will continue.

I think it is important to put this in some kind of
context, or the context which we as users of the

airport and as airlines have looked forward with some degree of optimism and welcomed the appointment of the Commission.

Basically for the last number of years we have been taking on the Aer Rianta monopoly largely single handed. We operate out here in an environment where effectively our principal competitor, Aer Lingus, is also owned by the same Minister that owns Aer Rianta. So we tend not to get a lot of support

overtly, although covertly they will support almost everything we say. The reality in the last two years, three years is that traffic at this airport -- and I will confine myself largely to Dublin for the purpose of this -- is stagnating. Services and routes are being reduced almost on a weekly or daily basis. Much more importantly from an Irish context, costs of airfares are rising. Dublin Airport, as you know, is ridiculously expensive and dissatisfaction with Aer Rianta from the users of this airport is widespread.

Let me touch briefly on this and I think it is important. This is the traffic slide at Dublin Airport for the full year 2000 as compared to 1999. Dublin-London last year grew by 1%. That is a market that has grown on average by double digits from 1985 to 1999 and suddenly staggered to 1% growth. In actual fact, if you take out Ryanair's growth 2000 over 1999 on Dublin-London it would have been a decline. If you take the total Dublin-U.K. market which you will note accounts for more than half of the total traffic at Dublin Airport, and you see that it too has fallen last year to 3% growth. Again after seven years of double digits compound annual growth, all of a sudden we have got 3%. Again, Ryanair last year accounts for more than the total growth in traffic on the Dublin-U.K. market base.

Now in total Dublin last year grew by 8%, so they are able to cover it up here. Largely because traffic scheduled to continental Europe, also charter traffic to continental Europe, holiday makers, ski charters, holiday charters out of Ireland and transatlantic traffic is growing quite markedly. So in around Dublin is doing fine, but our key core markets are in deep trouble after. They have lurched into stagnation last year after ten years of double digit growth. Why is that? It is that costs at this Airport have been escalating wildly for the last two years.

Aer Rianta will try and blame all this on foot and mouth disease. Foot and mouth disease wasn't

prevalent in the year 2000, had nothing to do with it, the first outbreak was in February this year. They then say well now this is because the market is mature now, it is not going to grow anymore.

Everybody who is in England, or every emigrant who is in England is now back -- not true. The evidence of that again is the growth of Shannon. What was different at Shannon Airport last year was there was a low cost incentive for airlines like Ryanair to come to Shannon and to grow from Shannon. As a result when we went back into the Shannon/London market last year and we went into Shannon/Europe market, a market I may add that Aer Rianta cautioned

us wouldn't work because there wasn't demand for it.

As you can see, Shannon/London last year grew by 20% compared to Dublin/London 1%. Shannon/Europe grew by 132%, it more than doubled. We account for all of that growth at Shannon, despite the fact that we only flew from Shannon to Europe for six months of the year, and Shannon in total last year enjoyed 16%, double digit annual growth. Why? Because they had low costs, it encouraged low cost airlines to fly there, we flew there and we stimulated additional traffic.

You compare the abject performance of traffic at Dublin Airport last year with other airports in the British Isles, where Dublin or the regulatory airports are now losing out. Stansted last year grew by 26%. Aer Rianta's argument while they make it here would be -- Oh well Dublin is a big airport now and therefore because it is a big airport it doesn't grow anymore, rubbish. Stansted is now almost the same size as Dublin, in fact, it will probably pass it out this year, still going a 26%. Luton where Easyjet are being encouraged to put in new routes and additional capacity grew by 20%. Glasgow Prestwick where Ryanair grew by 30%. And just to prove that this isn't Ryanair all on its own, Liverpool where the growth is entirely down to Easyjet grew by 54% last year, while Dublin

following a policy of increasing costs at the airport's monopoly with slobbering along, going nowhere.

Flick on to the next slide -- which is the first quarter of this year, because the situation is getting worse whilst this Commission has been, we have been awaiting a decision from the Commission. Dublin/London in the first quarter of this year was down 5%. Ryanair's growth in Dublin/London in the first quarter was up 3%. Somebody else was losing traffic head over heels. Dublin/U.K. in the first quarter was down 3%. Total traffic in Dublin in

the first quarter because thankfully the Irish economy is doing very well and we have lots of rich people now going on skiing holidays, was up 3% again. The only growth was outbound charger traffic and some minor year-on-year growth on the transatlantic. It is all down to foot and mouth. The terrible impact of foot and mouth. It is not our fault say Aer Rianta, again, horse crap.

Shannon in the first quarter of this year, Shannon/London traffic grew by 30%, Shannon/Europe the traffic grew by 96%. What happened the foot and mouth in the Limerick and greater Clare region? They don't seem to have had any. And the difference is at Shannon you have a low cost base, you have a low cost base that is stimulating low fare traffic, and low cost access.

What happened in the U.K. markets where they are stimulating low cost travel and low cost access? During the first quarter of this year, in a country which was bedevilled with foot and mouth disease you see substantial continuing ongoing growth. Stansted up 20% in the first quarter, Luton up 16%, Glasgow Preswick almost in the centre just about north of Carlisle of the foot and mouth epidemic grew by 57%, and Liverpool grew by 21%. What this shows us is that we have a very serious problem in this country and in particular at Dublin Airport.

Traffic is stagnating and in actual fact in the current year is declining, and Aer Rianta's attempt to dress this up as "it is a problem with foot and mouth" doesn't hold water. It didn't hold water at Shannon where it is continuing to enjoy very rapid growth, and I doesn't hold water at any of the U.K. airports where costs are being reduced, where low fare airlines are being encouraged to open up new routes and stimulate traffic by providing people with lower fares.

I go back to the initial quote, what have they to meet the requirements of users? The requirements of the users of this airport, and that is principally the airlines and the passengers, is we want lower

fares and we want new routes, and what we have had in the last two years has been higher costs, higher fares, no new route development and bloody stagnation. And that is the background which we believe this Commission is going to have to make recommendation.

Costs at Dublin are rising. I enclose here numbers that we have taken from Aer Rianta's own High Court affidavit just so that they can't accuse us again of

putting in the wrong number. These are Aer Rianta's own numbers. The Ryanair/Aer Rianta PLF which is the passenger load fee, which we have to pay this monopoly in the last three years. 1999 according to Aer Rianta it was ú3.06 per passenger, that is on a return ticket that would be ú6.12. In the year 2000 it double to ú6.08 and last year or in the current year it is rising again to ú6.19.

If this Commission do nothing that will continue to increase for the next three years as the remaining growth incentive and rebate unwind at Dublin Airport. If you do nothing the cost to Ryanair and also to Aer Lingus, the two principal airlines at this airport will continue to increase in the next couple of years. You are going to see more stagnation and you are going to see more declines.

The net landing charge per tonne which is the

landing fee payable on every arrival at this Airport ú2.25 in 1999, increased to ú3.47 last year, rising to ú3.53 this year and it will rise again for the next three years as further growth schemes unwind. Up by 57%.

There is no justification apart from monopoly pricing for these type of price increases that have been levied on the airlines and indirectly on the passenger users at this airport in the last three years. The only thing you can say about this price increases is that this is an abuse of a monopoly, and that is what we look to the Commission to reverse. It continues even this year, check-in desks, Aer Rianta have built a brand new terminal facility. Don't mind the fact that the two major airlines, Ryanair and Aer Lingus don't use this facility, how do they pay for it -- they just double the rent on the check-in desk in the old terminal building, which went up from ú6,500 to ú12,000 on 1st January of this year. What's the justification for it? There isn't one. We asked for an explanation, we didn't get one. It's take it or leave it, that's what monopolies do and that's what this Commission needs to reverse.

Now some may say as Aer Rianta would say -- well we just have it in for Ryanair, we just have it in for the airlines. No they don't, they approach this

monopoly pricing all over this airport. You look at the short term car park charge, it has increased by 71% in the last two years. Now there is no justification for that kind of price increase. They didn't buy the land out here, they were given it free in grants by the taxpayer. In most cases they are charging short term car parking for a field up

there that they have poured some concrete on. They don't even have a multistorey car park on it. Yet they are gouging passengers who do not have a choice by the way if you want to get to this airport, there are not too many transport alternatives other than drive here and park your car, 71% price increase. Rate of inflation during that period, about 5%.

Aer Rianta have used a regulatory vacuum that has been created in the last two years to gouge everybody at this airport. Minister O'Rourke and the Department of monopoly minders have been hiding behind the appointment of a regulator for the last two years, because every time we as a user make a complaint they say, this is the matter for the regulator. Yet the legislation for the regulator wasn't moved for about 15 months. You yourself I believe were appointed something like 15 months ago, but only empowered 4 months ago. And what's happened in the intervening period is Aer Rianta have screwed everybody, whether it is customers through car parking charges, airlines through the rebates, growth discounts.

The Department of Public Enterprise, and there's an oxymoron if I heard it, have protected them at every hands turn, while this price gouging has been going on for the last two years, and what has happened? Traffic growth has been devastated by these higher costs, because have no alternative but to pass them on, and immediately markets that have been growing by double digit numbers for the last ten years have stagnated and in the first quarter of this year declined. This is a very price sensitive market. We remain an island on the periphery of Europe and the only way for people to get here and on and off this island is to fly, and yet they are being gouge at the point of entry and the point of exit.

Services and routes have been reduced in the last two years. This is not all down to Aer Rianta obviously, but it clearly indicates that we do not live in a very buoyant marketplace for the development of airline services to and from this island.

In the last 15 months alone, AP Airlines in Pakistan International have pulled out of Shannon, Virgin Express have pulled out of Shannon, Cityjet have pulled out of Dublin, British European Airways have pulled off the Dublin/Sydney route allowing Aer

Lingus to have a monopoly on it, Transair have gone bankrupt. Aer Lingus themselves have pulled off Zurich and Copenhagen, Aer Lingus have also pulled off Bristol, Newcastle and Leeds. They have pulled

off the domestic routes and earlier this year, British Airways have cut back its operations on the Cork service from three to one a day. All of these in some cases have been replaced by Brimin or smaller aircraft, providing seat capacity, but the result is the same. Average fares are rising, traffic and growth is declining.

Dublin remains ridiculously expensive. I have to say we were truly shocked by the statement in your finding that Dublin was only 30% more inefficient than its peer group. We have always, I have stayed on the record for the last number of years, confirmed that Dublin is by far the most expensive airport to which we fly. This is a study which we had commissioned and done by the University of Westminster dated August of last year, which give access to all of the invoices with pay, or the prices we pay at all of airports we fly to in Ireland, the U.K. and in Europe. What they did was they came back and said the average would be indexed at 100, and as you can see Dublin ranks at, and Cork -- at that stage we weren't flying to Shannon -- Dublin and Cork rank at 204, double the average price we pay to airports in the U.K. and

Europe. The next closest is Gatwick, Birmingham and Manchester. But almost all of them - Stansted which would be now our biggest airport is half the price of Dublin. It is the same size, if anything it has invested more capital in it in recent years, and yet the prices are half what we are being charged in Dublin.

Some will say, look this is just O'Leary, he's a lunatic, he has the irrational hatred of Aer Rianta. Ryanair hate Aer Rianta, everybody knows this, it is just Ryanair ranting and raving yet again. No it's not, dissatisfaction with Aer Rianta - it's not just widespread, it is universal. Here's some quotes taken from newspaper in the last two to three years of other chief executives, or more recently of other airlines flying here.

Michael Bishop in British in British Midlands:

"Pro-rata to its size, Dublin is a very high cost airport". This was before it planned to increase costs again this year."

Gary Cullen of Aer Lingus, I appreciate he is not the current Chief Executive of Aer Lingus, but they change them so often it is hard to get a current quote:

"We are very concerned about the direction which landing charges (at

Dublin) are taking."

Michael Bishop again at British Midland:

"Higher fares are inevitable if the likes of Aer Rianta hike up fees for airlines."

And Richard Branson:

"We support Ryanair's stance on the Dublin Airport charges row. The costs at airports cannot remain at the ridiculously high levels they have in the past while airlines drive fares down."

And it is not just the airline customers. Other users of this Airport in their submissions to the Commission have registered universal dissatisfaction with the pricing at the Aer Rianta monopoly airport, with the service or lack of service being received, and the absence of any consultation.

Aer Lingus:

"Proper consultation with Aer Rianta's customers would have resulted in better value for money but our views were ignore."

"Excessive costs of operation and an inflated asset base should be penalised through lower charges."

Bord Fsilte:

"The introduction of regulation of airport charges will provide a mechanism to prevent any monopolistic abuse by encouraging productivity and efficiency."

Now obviously Bord Fsilte had written this before they had seen the draft report of the from the Commission, but we live in hope.

The Irish Association for International Express Carriers:

"Frankly, on the record of past performance, there should be no change in current charges being paid to Aer Rianta until there is evidence their efficiency and effectiveness has increased substantially"

These are the comments from users. These are the people whose requirements you are of the legislation obliged to address or take account of.

Regulations still remains no substitution for competition, but we are of the view that what this Commission should be trying to foster is as close to possible or to simulate what would be effect of a real true competitive environment here at Dublin Airport. Regulation has always failed in this country. When the airfares were last regulated by the Department a return fare to London was ú209, and benchmarked against its peer, its group of mid-peer airlines that was a cheap fare in 1986. Aer Rianta charges, why regulated by the dopes, have doubled in the last two years, so much for regulation. The Irish/U.K. market, our biggest tourism and traffic market has stagnated under regulation in the last two years. And yet we have some stunning examples of competition working in this country in recent years. Air travel, the whole emergence of Ryanair and the competition with Aer

Lingus has transformed up until two years ago, access cost to this country and also transport and tourism infrastructure.

Go outside air travel you take the Telecom's industry and the competition between Esat and Telecom revolutionised access to voice telephony and all that kind of stuff in this country. Services were dramatically enhanced and costs dramatically reduced. In my cases that competition ran ahead of the regulator, or the Telecom's regulator, because competition will naturally do that, and I think in many ways that is the difficulty that this Commission faces. You actually have to for the first time in this country, regulate a monopoly. In other previous forms where there was telecommunications, or the ESB you are regulating competition. You have to regulate a monopoly and they are a monopoly and they are the worst example of monopoly in this country.

And we have even the more recent examples of competition even at Dublin. Go, as you know, have announced they are going to fly to Dublin from Edinburgh starting in the end of September. ú45 return. Ryanair immediately responds, well we'll do it for ú29 return. Go responds say they will go ú10 one way. Ryanair responds saying we'll go ú5 one way. Nobody asked us what our rate of return, or

what regulated asset base would be. Nobody asked us what the cost of the aircraft would be. Nobody gives a toss what our costs are going to be, or what our return on capital are going to be, or what our return on equity is going to be or anything else, but what the competition does is addresses the needs of users who prior to 13th August didn't even exist.

Annual traffic on the Dublin/Edinburgh routes for 100,000 a year. I predict in the next 12 months it is going to grow to 300,000 passengers a year, and that is because competition works, regulation doesn't. Therefore, I believe the onus is on this Commission to ensure that you go beyond in many cases, the spirit of the legislation to replicate wherever you can, competition to ensure that this truly works. Unfortunately your draft proposals are an abject failure in this regard. They will fail to encourage Aer Rianta to reduce costs, they will fail to increase efficiency, they fail to limit what is ridiculously excessive capital expenditure, which is opposed in almost all cases by the users, and they fail abjectly to promote new route and traffic growth.

Let me just touch on some of the detail of this. In relation to your draft proposals, again if we go back to the mandate you were set under legislation, it is to facilitate the development and operation of cost effective airports which meet the requirements

of users. And yet in you draft report you allow grossly excessive recoverable CAPEX. You confirm that Aer Rianta has gold-plated facilities and has development excessively expensive facilities in the past, but you failed to adequately devalue them in the -- what does that R stand for again? -- recoverable asset base, or whatever it is called. A ridiculous return on capital of 9% with no justification whatsoever. You confirm that Aer Rianta is 30% less efficient than a couple of other equally inefficient peer group airports, and yet the penalty for being 30% more inefficient is we'll have a price increase anyway. If they are 30% more inefficient do something about it, but don't reward their inefficiency by giving them more price increases.

Your draft utterly fails to address impact and traffic growth. There is nothing in there about traffic growth and the impact on it, do we need these facilities, is traffic actually going to grow by 5% each year, or is it going to continue to stagnate as it clearly is this year. And although you apply a single till approach, which we by the way fully support, you exclude the Great Southern Hotels and Aer Rianta International from it. Now there are funded from money generated in these airports, they are a significant drain on otherwise scarce capital at these airports, and they should be

brought back into the regulatory till because if this monopoly wants to spend more money wastefully, they should be funding it by selling some of these non-core activities. You entirely fail to encourage

Aer Rianta to build facilities that meet the users' requirements. You have failed to tackle Aer Rianta's one-size-fits-all approach. There is some half-hearted wording in there about sub caps.

I mean this Commission, with respect, has been empowered for 4 or 5 months. You have been doing something for the last 16 to 18 months and you still haven't come up with a sub cap. We can't wait any longer. And lastly again a serious issue, you entirely fail to address the availability and the possibility of outside funding, user funding, and public/private finance funding in addressing the cost of capital going forward, or Aer Rianta's CAPEX programme.

Let's discuss, briefly touch on their CAPEX programme. May I draw your attention -- just to introduce this -- in your draft you have said on the CAPEX:

"In terms of CAPEX the Commission is proposing that Aer Rianta be allowed to recover by way of airport charges the cost of the recoverable CAPEX programme, the details of which are set out in Annex 4."

Now I am taking you through here some of the Annex 4

capital expenditure which you propose to allow to be recovered from airline passengers. Let me tell you our view. Let's start off at €23 million for access/egress roads - exclude it. Absolutely ridiculous, why the hell should airline passengers be paying for the roadways around here. I am not aware that CIE charges people for the development of roads outside Houston Station, and there certainly has never been a proposal that the ferry companies should pay for the access/egress roads around the ferry ports.

You allow them €160 million over the next ten years at Dublin for what is loosely called "Terminal Building". We, because there is no explanation to what the hell that is, can only assume that A is the second terminal. Again we say exclude it. Why? Well (a) because the users don't agree that a second terminal is necessary, (b) users such as Ryanair has offered to build and pay for a second terminal. We are quite sure that if Ryanair do it Aer Lingus will also want to build one, so you will have a third terminal at no cost to Aer Rianta whatsoever, and yet you are doing to allow them to lob in another €160 million for terminal building.

Exclude €2.5 million for the north terminal, it is already built and done. You have permitted them to

spend ú34 million for what is euphemistically called

new piers. Now again, because you haven't explained what that is, we presume that is the finance for Pier D. Again, exclude it. (a) We already have agreement as to the cost of Pier D, it is ú15 million. We have already proposed that we, the user, will pay for it. There is no justification for permitting these guys to go and blow another ú34 million building piers that the airlines, or we in this case, have already offer to build and would build and pay for at half the cost that these gold-plating merchants propose.

You then propose to permit ú152 millions for stands and airfields, now again with no explanation, or we must assume that that is the second runway. You know from your consultation with all of the airline users, no airline user at this airport believes a second runway is necessary. This is an airport that already has two runways, one large and one small. It accounts for 15 million passengers a year. Gatwick this year will handle 36 million passengers with one runway. There is no justification for a second runway - exclude it. Until they can actually show that (a) it actually meets, and I go back to the legislation, the requirements of users. In this case not only does it not meet the requirements of the users, the users are unanimous that it is not required, and then we get to the funny money. ú102 million for railways, even Aer Rianta managers when

you ask them what the hell is the railway about, don't know. This was an idea that they floated at their annual results because they wanted to have some good news.

So Aer Rianta propose to build -- spend ú100 million in the next ten years on a railway, God help us. They can't run a bloody airport and now we are going to let them build a train track. Where will it go? It will be an internal railway system. Who is going to pay for the it? Oh, the airport passengers. Why, they don't want the railway, they don't need a railway, they don't use a railway, and yet you are going to permit them to spend another ú102 million on it. This is gross failure to control capital expenditure. There is no justification for it, and it shows, in our view, the complete failure of the proposals in the draft regulator's report.

Let's talk about the control of cost. Some initial suggestions. The Commission should immediately devalue the six-bay extension. Two airlines, the two principal users accounting for 70% of all passengers moving through this airport don't even use it. We opposed this development throughout the

development and we have always said it was ridiculously and excessively wasteful. They constructed an underground baggage handling system that you know, doesn't actually work in tandem with

the ground level baggage handling system, and the rest of the airport. This was a building project designed to prove that Aer Rianta could actually build an underground handling system. You propose a 9% rate of return -- sorry, we believe a 9% rate of return is grossly excessive for what is a AAA rated, State owned, non-commercial monopoly.

This Commission should be incentivising Aer Rianta to reduce cost and to promote efficiency, not rewarding them by proposing a 9% rate of return on what you already have found to be an inefficient and gold-plated facility. You propose that the one size fits all charge -- sorry, Aer Rianta is 30% more inefficient, and yet your sanction is to reward them with a price increase. If they are 30% more inefficient you should be reducing the charges by 30%, not rewarding the buggers.

Lastly -- no, not lastly, your one size fits all which is this work load unit charge stuff of ú4 whatever it is going to be. I heard you yesterday criticise the poor guy from the Hotels Federation as to why somebody in Dublin should cross-subsidise, where in the legislation does it say that they should cross-subsidise Cork and Shannon. I want to know where in the legislation it says that Aer Rianta can use the people who are price sensitive using the worst facilities in this airport which is

Pier A should now cross-subsidise the fat cats, waddling down the ú50 million mews at Pier C to board their British Midland and Aer Lingus morning business flight to Heathrow. Why should our people and customers who are very price sensitive, who will put up with the most inferior facilities, and do, have to pay the same charges as those guys? This is cross-subsidisation by the backdoor, again indicates the failure of your draft proposals.

And lastly, after 18 months, or 15 months since you have been appointed you still haven't come up with a sub cap and I will come back to that later.

We don't want to be all negative here today so we thought we better come and make some positive proposals, because I thought the first question you would ask is, what is it the hell you want? Well okay here it is. We believe, and we are being generous, Aer Rianta's allowable rate of return should be fixed at 4% for the next five years. Where do we get 4% from? Well we believe the yield

at the moment in downtown property in Dublin is about 5% and for Aer Rianta it should be a little bit less than that if you are going to incentive these guys to actually reduce costs and enhance efficiency. We believe immediately that Aer Rianta's assets should be valued at the written down historical costs, net of grants. I believe that

they were in here yesterday with this absolute bloody nonsense that they should actually have replacement costs of runways should be the asset base. That is about as ridiculous as me saying I fly people around a €9 at the moment because I fly a 20-year-old aircraft which has a written value of €1 million. Now I should actually start charging everybody €49 because, oh - when I have to go and buy a new plane that is going to be €49 million, absolutely nonsense. No company in a competitive commercial environment is ever able to price its product on the basis of replacement cost. This Commission should be forcing Aer Rianta to do so on the basis, as every other company does, written down historical cost net of grants.

Immediately, in the recoverable asset base you should exclude 50% of the cost of the six-bay terminal extension. Why? Because the underground baggage handling system wasn't needed and wasn't necessary, and actual enhances the inefficiency of that building. It means that Aer Lingus and Ryanair can probably never use that new terminal building, because we can't operate ground level baggage handling system for one part of the luggage and the underground baggage handling system for the other. Immediately, Great Southern Hotels International should be included in a single till to promote capital efficiency and to give Aer Rianta the

wherewithal to fund this ridiculous capital expenditure if they are to be allowed to proceed with this ridiculous capital expenditure.

We proposed that the maximum permitted revenue per work load unit, which you propose in your draft of €4.96 at Dublin be reduced immediately by 30% to €3.57 to reflect what you have already proven is the inefficiency compared to Aer Rianta's own peer airports. We could go further, at the best of the airports, which I understand is what, Copenhagen?

MR. CLIFTON: Yes.

MR. O'LEARY: They are 50% more inefficient. Why

shouldn't Aer Rianta be held up and said, right beat the best. There is good justification for doing so, because the average fares being charged by the airlines to and from Dublin Airport are lower than they are at any other airport anywhere in Europe.

If you have the lowest regime of airfare charges of airfares, you should have the lowest regime of airport costs. Yet what do we do? Well we benchmark them to a couple of other mint-sized airports around Europe. You are not applying efficiently stringent targets to this monopoly. You are inheriting a monopoly that has been in place for 20 to 30 years and the first regulatory decision you should make should really put it up to them.

We also believe, by the way, that the maximum whatever that RWU nonsense is at Cork and Shannon, should be cut in half by 50% to €1.74. Half the RWU level at Dublin to aid regional development.

In your draft document you have actually proposed that Cork and Shannon are doing to have a significantly higher charges. Why? To pay for again, absolutely ridiculous capital expenditure programmes at Cork and Shannon Airport. These are airports that are not going, or not going significantly, are never going to be significant international airports. Yet you are lumbering them with the excessive capital expenditure that was put in there in recent years for purely political, not economic reasons, and completely nonsensical capital expenditure proposals for the next couple of years, which at Cork Airport amounts to a spending of €100 million in Cork Airport. You could buy the bloody thing for than €100 million. You propose to allow them in Shannon, where they have just built a brand new terminal last year, to spend another €84 million. This is an airport which the U.S. or the transatlantic stop over is removed in the next two years, this traffic is going to be cut in half. Its operating costs are fractional, and yet they are going to spend €84 million down there, ridiculous. If you don't set them tough regulatory targets, then we believe for a start it should be half the

regulatory objective at Cork and Shannon. You will have failed abjectly to meet the regional development objectives set out in the legislation.

For the next five years, having established a €3.47 RWU at Dublin, you should subject that to an RPI minus 7% annual formula to promote further efficiency. What studies have we done for that? Absolutely none, we just assume that inflation in the next five years is going to be about 2% and so, therefore, the RP-RWU should decreased by 5% each year for the next 5 years. Why? Well on average we believe our airfares will fall by 5% a year for the next 5 years. Most companies that operate in commercial competitive environment expect to take out about 5% of their costs each year. Except for

government owned airport monopolies when they are 30% more inefficient than their European peers get rewarded with a bloody price increase.

The PRA discount - let's talk about sub caps. Let's not wait any longer. 25% should be restored to reflect the lower cost inferior nature of these facilities. There is no excuse for further delay on sub caps. If the Commission hasn't had the time to get its head around sub caps, then let's take Aer Rianta's guidance on sub caps. They had a sub cap at PRA for the last 8 years, 4 years which was a 25% discount. In the interim let's go back to 25%

discount, the problem with that, which we accept, is that you are suddenly going to have a queue of airlines who want to bail out of the 50 million C facility, and get into the overcrowded stuffed A facility because the costs would be cheaper. Because what the requirements of the users are is low cost facilities, not gold-plated mausoleums, which is what Aer Rianta had been developing.

The agreed Pier D be constructed at zero costs, immediately because of available user funding. Meet the requirements of users, one of about the only things that Aer Rianta and Ryanair and almost every other user at Dublin Airport is agreed on at the moment, or has agreed on in the last ten years, is the congestion at this airport is intolerable and needs a quick solution. As you know, Pier D which will add about 8 million terminal capacity in Dublin Airport has been agreed between Ryanair and Aer Rianta since about 1997, it has planning permission, it has approval, it now has the unanimous support at airport user meetings of all of the principal airport users yourselves, Aer Lingus, Service Air, Cityjet handling, and it is still not built. Why? Because Aer Rianta don't want to build it anymore. It would solve the congestion in advance of summer 2002, and they still won't start it. Four years after it was first agreed and after planning permission was obtained.

This Commission exists to facilitate the meeting of the requirements of users, here we have the first issue where all of the users are agreed, and we still can't this monopoly to build the bloody thing. Why? Well it appears from your draft report that they would rather spend ú35 million building some other bloody facility up there, which they will then be able to get a 9% return on and charge users across the airport even more. It needs to be built and straight away.

Lastly, we urge you to prohibit any further capital

expenditure being included in the recoverable asset base unless it is agreed by the airline or the airport users with the CAR, because there isn't any justification for any of this capital expenditure. In most cases the users don't want it.

MR. PRASFIKA: Michael, if you could just finish.

MR. O'LEARY: I am glad you said that, because we have just got to the summary page. Let me finish the summary. Costs of Aer Rianta airports have doubled in the last two years, you know they have doubled for Ryanair. They have increased by between 50% to 60% for other airlines. Higher costs that have been passed on in the form of higher fares have aided 15 years of new route and traffic growth. Access cost

and tourism in Ireland face a crisis because we are now losing out to low cost efficient airports in the U.K. and now in Continental Europe. Your draft proposals fail abjectly to reduce these costs, to incentivise Aer Rianta to promote growth, and will clearly devastate what little bit of traffic growth there is in Cork and Shannon. We humbly and representfully recommend that Ryanair's proposals be adopted in full in your final findings, and if they don't and if you as the regulator fail to deliver significantly lower prices, and a resumption of new route in traffic growth, then we believe not alone will you have failed under the legislation but in actual fact that your position will be untenable.

And may I conclude again by coming back to Section 33 of the Act which said that:

"In making the determination Commission shall aim to facilitate the development and operation of cost effective airports which meets the requirements of those users."

We submit that you have ignored the requirements of the users as set out in our original submissions to you, or the written submissions and again to clearly in the submissions that we have heard over the last two days. And we hope and pray that you will have a radical rethink before the final draft of your recommendations are produced. Thank you.

MR. PRASFIKA: Okay Michael, thank you

very much. If we can just ask you a few questions pertaining to your presentation. Looking at the slide which has the heading "Dublin is ridiculously expensive". Just to confirm that what you comparing are the charges that Ryanair pay at those airports.

MR. O'LEARY: The actual charges paid

by Ryanair at those airports. It is a very important comparison there, because as you know what Aer Rianta will do is they will show you the published charges of Dublin Airport and the published charges everywhere else. They have about as much relevance as the rack rate charge, if you go into any hotel room in Dublin, in the back of the wardrobe you will see that here's the rack rate which almost nobody pays except the guy who wheels in on a Friday evening, I need a room. Tour operators, conferences, everybody else gets discounts and the airline business is no different.

MR. PRASFIKA: Is it a more accurate way of comparing the actual charges at airports, is really to look at their at their own accounts and to determine what they are achieving in terms of their yield per passenger? Doesn't that reflect what's actually happening at those airports?

MR. O'LEARY: No, because in actual fact it is almost impossible to

compare between different airports. Particularly if you take something like Aer Rianta, what their yield per passenger is. This is not an operation that just operates with one airport or say three airports that is easy to determine. They have all sorts of different commercial activities up there. Aer Rianta is one of the more unusual airports in that it runs its own duty free shops. They are not subcontracted like say at the BA airports. It runs its own gardening centre here. So it is very difficult to actually tell or to isolate what is the yield per passenger. However, we don't believe that the yield per passenger is in any way valid. What we are talking about here is how do we or you facilitate the development and operation of cost effective airports. It has nothing to do with yield per passenger, which meets the requirements of users. Those are as, and if I take your definition of users from your draft, users are the common sense meaning of this term namely, passengers, cargo shippers, airlines and ground handlers.

MR. PRASFIKA: I understand the difficulty in terms of the comparability of the airports and that is something which the Commission has to grapple with whatever sort of benchmarking exercise that they do. But, for example, based on published accounts for the latest years for which they are available the per passenger yield in terms of the aeronautical

charges, and let's say, for example, Stansted Airport, an airport in which you pay half what you do at Dublin Airport, the average aeronautical yield per passenger is higher than what it is at the Aer

Rianta airports.

MR. O'LEARY: Why would I or indeed you care? There is nothing in the legislation which says that you actually have to care what the aeronautical yield per passenger is. At many airports where we operate the aeronautical yield per passenger will be zero because we don't pay them anything, yet those airports will function quite efficiently and quite effectively because as you well know, Bill, there are many other streams of income that are generated by other customers such as the car parking income, the concession revenue, catering, retail, duty free.

MR. PRASFIKA: We are quite aware of that. I guess what we are trying to get at is that it seems to me if I can understand your basic thrust of what your approach is, is that you want a regulatory system which is going to regard and enhance and facilitate the growth of traffic. That should be the primary growth.

MR. O'LEARY: No we believe the primary growth of it should be to enhance the requirement, or meet the requirements of users. That does not necessarily mean that it

should just be growth traffic. It can also mean, in actual fact if we take something like the car parking charges, but the charges actually would come down.

MR. PRASFIKA: For example, I take it what you are basically saying is that what you would like in terms of a regulatory price cap, is one in which you can achieve at for example Dublin airport comparable prices to what Ryanair pay at Stansted Airport?

MR. O'LEARY: No, that wasn't exactly what we set itself out.

Ultimately where we would like to be at Dublin Airport would be free. Now that clearly is not a tenable position, what we have given you here is a recommendation that says let's drop you proposed work load unit by 30% to do nothing other than reflect your own finding that they are 30% more inefficient than peer group airports. A 30% reduction will still leave the Dublin charge higher than what we pay at Stansted.

MR. PRASFIKA: No I understand that. Isn't that the point, is that what you pay at Stansted is significantly below the average yield at Stansted.

MR. O'LEARY: No, that's not if point at all. You are not here to regulate Stansted --

MR. PRASFIKA: No I understand that

MR. O'LEARY: -- you are here to

regulate Dublin.
MR. PRASFIKA: No, but what we are trying to do is to build up a regulatory regime which results in a viable airport, what I am suggesting to you, looking at your chart ... (INTERJECTION)

MR. O'LEARY: Sorry ... (INTERJECTION)
MR. PRASFIKA: No, let me just finish the question. If we are looking at your chart of what you pay at other airports, and we have evidence for example, of what you pay is substantially less than the average at Stansted, if that was effectively the regulatory cap wouldn't Stansted implode as an airport?

MR. O'LEARY: I'm glad you raised that point, because what you are not here to do is to make Dublin, and I forget what phrase you used, profitable or economic or any other airport. What you are here to do is to facilitate the development and operation of cost effective airports which meet the requirements of users. Nowhere in this legislation does it put you in charge of the profitability of Dublin Airport, or the ongoing or sustainable profitability of Dublin Airport.

MR. PRASFIKA: I would direct you to Section 33(b) of the legislation which direct us to have due regard to precisely those factors.

MR. O'LEARY: I am glad you got to that because I thought we would get to Section 33(b) pretty quickly. May I draw your attention to Section 33 which before it gets into having due regard to these factors it says;

"...aim to facilitate the development and operation of cost effective airports which meets the requirements of users."

There are a whole series of issues which you are to give due regard to:

"(a) the level of investment in airport facilities in order to meet the current and prospective needs of those on whom the airport charges maybe levied."

That's the airlines. Now you are not here to worry about the reasonable rate of return of capital employed in that investment. You have been given a unique opportunity as regulator, probably given to no other person anywhere in Europe. You have a plank sheet of paper under this legislation. You can do what you wish to do with it. You can interpret this legislation in any way your like, but please don't start off by worrying about the

recoverable rate of return and the profitability of an airport monopoly because you will do this country and this industry a great disservice.

MR. PRASFIKA: I am not suggesting that's where we start the

exercise. But I am suggesting to you that that is something which the legislation requires us to take into account.

MR. O'LEARY: The legislation requires you to take it into account, and as you have already made clear in your own initial determination, where we get on to the factors, shall have due regard to you have said:

"The extent to which reliance of any one of the factors contributes to the achievement of the statutory objective is a matter for the Commission to determine."

So you have clearly established under legislation, and we agree with you, that you can have due regard to any one of the following ten issues; the level of investment, the rate of return, the efficient use of facilities, the contribution to the regions, the level of income airport charges, operating under costs incurred by the airport, the quality of services, the cost, competitiveness and efficiencies and you can actually, if you wish, under your own interpretation, which we agree with, ignore them if you so wish.

MR. PRASFIKA: Well I would suggest to you that we only take that step providing we have very sound, defensible basis for doing that and to the extent if you can supply us with that, that is fine.

MR. O'LEARY: Well let me supply you

with it, I will refer you to your own page 6 of your own draft as supplied with your one, you have determined that you can take and put as much emphasis on any of these points if you wish.

MR. PRASFIKA: Maybe if we can just move on another bit. Maybe I misinterpreted what you were suggesting. Because I thought what you were suggesting at some point is that the Commission should consider putting in certain types of growth incentives. You spoke approvingly of past growth incentives at Shannon, Cork, Dublin etc. Is that something which you would require or request as part of the regulatory framework?

MR. O'LEARY: No, I don't actually see -- there is nowhere in our presentation that we said anything about growth

incentives. We support growth incentives in principle, but we don't see any opportunity for it under the legislation per se. What we are saying under this legislation is that you have inherited an monopoly that has existed for some 40 years. You have already found in just four short months, and we would agree with you, that it is 30% more inefficient than a medium peer group. It is 50% more inefficient than the best in the industry, and we think your minimum starting point should be either a 30% or a 50% decrease in the charges, the

per passenger charges which is the basis on which you are going to level it.

We also believe that you should put in a tough regulatory regime for the next five years that requires them to reduce that every year by 5%. Would this make it attractive to Ryanair to grow dramatically out of Dublin? No. Because at ú3.43 you are still much more expensive than most of the other offers that are put to us in other U.K. and European airports, but you would at least create an environment in this country where you are lowering access costs, you are promoting encouraging stimulating traffic and tourism growth, and you know, and Aer Rianta's own numbers demonstrate this over the past ten years, with traffic growth in many cases self-sustaining and self-financing because of the many different income streams that Aer Rianta have, or options Aer Rianta have for gouging more money out of the incremental passenger that gets here.

MR. PRASFIKA: Just maybe on that last point about traffic growth being self-sustaining, doesn't that assume that the underlying per unit costs basis at the airports will decline over the short to medium term?

MR. O'LEARY: You are asking very technical economics question and you are going to go way over me my

head.

MR. PRASFIKA: Okay, it is really a very simple point. There are some of the Ryanair airports which I visited which perhaps had a capacity of a million passengers before you arrived, maybe annual passengers of 30,000 or 40,000. Very significant economies density, therefore, it made a great deal of economic sense from the point of view of the airport to have very strong incentives to grow their traffic. They had excess capacity, their units costs would decline significantly because they had built the bloody thing, as you would say. Now the issue which we have to grapple with and we would welcome your assistance on this, is what profile the Irish

airports have, particularly Dublin Airport. Can we build a case, as you put it, that traffic growth is self-financing because of declining unit cost?

MR. O'LEARY: Yes.

MR. PRASFIKA: There is a body of thought out there, it doesn't exist on this room, except on this side of the table who has read the literature which suggests that at certain airports there are actually diseconomies of scale. So, therefore, if our remit is to build cost effective airports, we have to come to grips with that question.

MR. O'LEARY: Absolutely, and as you know and we have discussed

this frequently over the last 12 months, you could not find a better example of cost effective facilities than build Pier D. Let Ryanair pay for it. You will add eight million passengers to the capacity of the terminal building of this airport at additional cost to Aer Rianta, and you want the corresponding contradiction of that, has been the scandalous construction and development of the six-bay terminal extension. That could have been built, we believe, at half the cost if they had done something simple like let's put in a baggage hall at the same ground level. So I can't stop the six-bay extension because it is built, I can't stop Pier C because they blew whatever it was ú30 or ú50 million building another ridiculously expensive, entirely inefficient facility. But if you want me to demonstrate to you, how do we get the unit cost per passenger down at this airport, build Pier D now, and allow the users to fund it.

MR. PRASFIKA: I think we are running a bit of time unfortunately.

Do we have any other questions.

MR. O'LEARY: We have all day, why are we running out of time?

MR. PRASFIKA: Well we have to treat everyone equally

unfortunately, that is part of our statutory ... (INTERJECTION)

MR. O'LEARY: But everybody else had no questions, we have lots.

MS. MOLONEY: Sorry Michael. On the Pier D you said it would cost ú15 million and you have offered to pay for it. Did you do a cost benefit analysis on that, and if you have done any figure work on that the Commission would appreciate it.

MR. O'LEARY: Cost benefit analysis to the airport, or cost benefit analysis to Ryanair?

MS. MOLONEY: Of Pier D.

MR. O'LEARY: Cost benefit analysis to

whom?
MS. MOLONEY: Well to yourself, or to
whoever?
MR. CLIFTON: If you talk to Aer Rianta
it has been in their plans
since 1997 and they have all the details in relation
to the cost of it, between 8 to 10 million
passengers.
MS. MOLONEY: Sorry, I was just assuming
that if you as a business
were offering to spend €15 million you were going to
get a benefit out of it, and if you have done any
work on that the Commission would appreciate it if
you submitted it.
MR. O'LEARY: The Commission might
appreciate it, but with
respect my business is nothing to do with you or the

Commission. I would be quite happy to give you the
cost benefit analysis though to Aer Rianta of a
facility that costs zero, which you can put another
8 million passengers per year through and satisfy
the only area of congestion that exists at this
airport, which is pier access stands, identified by
SH&E Report. So you want a cost benefit analysis
let's do it now. Zero cost, 8 million more
passengers.

MR. PRASFIKA: Maybe this relates to a
slightly wider question.
One thing which, of course, we encourage you to do
is to make a very full submission to us on the CAPEX
program going forward detailed critique, we would
appreciate that. As an element of that you can give
us information on what you believe a Pier D should
cost going forward, we would appreciate that.

MR. O'LEARY: Zero, it shouldn't cost
anything, we'll pay for
it. Also by the way, as you know, we can't make a
detailed submission on the capital expenditure
because nowhere in your draft report do you tell us
what the hell this capital expenditure is. There is
€100 million going to be spent at Cork Airport in
the next 8 years and if I look at the detail of it,
God bless the good people of Cork, of whom I am very
fond, Aer Rianta are going to spend €30 million
pound in Cork next year. On what?

MR. BURKE: Can I just point out for

the record. You sort of
said let us build it with reference to Pier D. We
do not have -- that is not something that we decide
...(INTERJECTION)

MR. O'LEARY: Please don't do the legal
...(INTERJECTION)

MR. BURKE: Just let me finish. We
are a public agency,
unlike your company we operate in the public domain.

The Statute is our rule book, so I think it is fair for the sake of completeness that one points out that a decision in relation to whether or not you should be allowed to go ahead, and we have no view on this, with that particular development is a matter in the first instance for Aer Rianta, and the perhaps after that for Government. I just think it is important to point that out for everybody's benefit, and maybe you could acknowledge that as the actual reality in terms of what our powers are. You made a lot of points in relation to things which we can do, which you think we should do, and we will give careful consideration to them. But I think at the point where you are giving the impression that we can do something which we cannot, well I think it beholds us to point that out to everybody.

MR. O'LEARY: I am glad you raised that point Jarleth, and by the way may I say that there is nobody else in this room would hold you in as high esteem as I have for your

record in this field. However, that is the plaintiff cry of the failed regulator. It is not in the legislation so we can't do it. It is in the legislation. The legislation said, and we have it up there;

"In making a determination the Commission shall aim to facilitate the development and operation of cost effective airports which meet the requirements of users."

Let me explain how you can do it. You can exclude any further capital expenditure on additional piers or on Pier D, or on a second runway, or on a second terminal building from the regulated asset base for the next ten years because there are users there who will pay for it. So please don't say we can't do it, you can. Let me turn your attention to the legislation, and I think it is important of this legislation, because Bill asked me yesterday to read the legislation and he will be happy to know that I read it for the first time this morning, a determination may provide (a) for an overall limit on the level of airport charges - which is what you have come up with; or (b) for limits to apply to particular categories of such charges; or (c) to any combination of such limits.

It also says and I quote in (b):

"A determination may operate restrict increases in any such charges, or to require reductions in them by reference

to any formula or otherwise."

This legislation gives this Commission the right to do almost anything it wants. You have incredibly wide powers. If you wish to make your mark and this Commission, and I believe this Commission has the people and the talent to make its mark. It should be a shining light for regulators around, certainly in the aviation industry in Europe. You can go so far beyond where you have gone with this draft document. You can make it impossible for Aer Rianta to waste anymore money. You have already recognised that they have wasted millions, but not if you are going to run with the draft document. You have not to now say tough targets, prohibit any further or exclude any further capital expenditure from the regulatory assist base as you are allowed to do under the legislation, you do have that power Jarleth, and you can make it happen.

MR. PRASFIKA: Okay Michael, thank you very much. I hope everyone enjoyed that as much as we did. This concludes our public hearing, and just to remind everyone that the written submissions must be received by the Commission by 5 p.m. on 26th July.

Thank you.

(THE HEARING WAS CONCLUDED)

