IATA response to the Commission for Aviation Regulation (CAR) public consultation Paper CP1/2007 of 9 February 2007 on Dublin Airport charges following the capital investment program 2006.

INTRODUCTION

IATA welcomes the opportunity to respond to the CAR paper CP1/2007.

Our member airlines operate in an increasingly competitive and deregulated business. Competition has driven down our real yields some 30% over the last 10 years. Airlines have responded to this challenge by achieving significant cost reductions and improved efficiency. For example, our members have reduced non-fuel unit costs some 14% over the last five years, with a 33% improvement in labour productivity. Airlines continue to seek greater cost efficiencies and improved productivity, creating benefits for consumers, the industry and the wider economy.

Airports are an essential part of the air transport network and value-chain, and are key partners for IATA and its member airlines. As such, the drive for efficiency and service improvement amongst airlines requires similar efforts from our airport partners. The key factor is that airports deliver the cost and service levels that airlines require in a cost efficient and timely manner. More than ever we need regulatory support to ensure the lowest possible costs and charges consistent with the provision of the agreed necessary capacity and service.

Q1 Please comment on how the DAA's investment plan has evolved since the Determination in September 2005. Does it represent an improvement on earlier plans? Are the changes in costs justified?

We welcome the CAR's involvement of users in the planning, design and timing of new investment decisions. We fully support the mechanism that allows commercial consultation with the DAA to take the lead, but with the necessary regulatory oversight to ensure discussions can proceed on a fair and transparent basis.

Investment in new airport capacity, along with more efficient usage of existing capacity, is essential if the air transport industry is to meet future growth in demand in a sustainable way. Customer involvement in new investment is essential to ensure it is appropriate, cost-effective and delivered on time with no 'gold-plating'.

We believe there is a clear requirement for additional capacity at Dublin Airport and generally support the development of T2 and Pier E achieving IATA Service

Level C. Relative to other airports in Europe and worldwide there has been very good consultation by DAA on the capital investment plan.

However, the differences in information held by the airport and users on the achievable costs of an investment plan increase the importance of measuring costs against an external, best-practice benchmark. We recognise that different circumstances at airports mean there will be differences in investment unit costs. But we encourage the DAA to develop as wide as possible a benchmark of investment costs at other airports, both in terms of the airports covered and the metrics used (i.e. more than just the cost per square metre). This would enable a clearer judgement to be made on whether the investment costs reflect the most cost-effective approach.

Where costs are deemed to be in excess of benchmark measures, subject to the agreed service level standard, they should not be allowed as part of the regulatory determination. Therefore, as Terminal 2 will deliver the same service standard as Terminal 1, any costs in excess of the benchmark are likely to reflect "gold-plating" or inefficiency

Q2 What are the advantages and disadvantages of using trigger-pricing principles when setting price caps for airport charges at Dublin Airport?

In view of the significantly increased expenditure proposals, which have doubled to some EUR 1,178m, we fully support consideration of the introduction of agreed milestones or "triggers" to incentivise timely and cost-efficient investment in major projects. These triggers must be based on investment outcomes rather than expenditure levels, ideally reflecting when part of an investment is completed (preferably in operational use) and the level of service quality it offers. They should also contain a penalty element for poor performance, with charges reduced in the event that that agreed target process or delivery dates are not reached.

It should also be considered that triggers:

- Can be an appropriate incentive if they reward the airport when they actually deliver the additional capacity to agreed quality standards.
- Should enable subsequent elements of the projects that are dependent on the milestones in question, being able to proceed as agreed.
- May offer some protection against pre-financing and deter the incentive from RAB based regulation to defer investment once price caps are set.

Our reasons for not supporting pre-financing of investment are given in Q4 below.

Q3 For what projects in CIP2006, if any, should the CAR incorporate the principle of trigger pricing when making future determinations? To what key milestones and dates should the triggers relate?

The capex triggers should be a means of focusing the airport on delivering key aspects of the investment program. In this regard the projects, milestones and dates should be agreed through close consultation between the airport, the users and the CAR. Evidence of the comprehensive and effective consultation process to date indicates that this is achievable.

Q4 Are there any reasons for allowing the DAA to start levying higher charges to allow it to fund CIP2006 in advance of the projects being completed?

No. Pre-financing has sometimes been advocated as a means of "smoothing" charges. However, this would involve airlines paying for the investment in advance even though they have no control over the management and delivery of the project.

We do not support pre-financing through user charges and believe that airlines should only pay for agreed investments on an "as and when used basis". Among the reasons are:

- Pre-financing through charges is more expensive for airlines, users and the wider economy.
- It is unfair as there is no guarantee that airlines paying for future facilities today will be the same using the service.
- Providing an upfront pool of money can provide inefficient management incentives for investments to be delivered in a cost-effective and timely manner.

While it is important to involve airline users in the definition and design of new investment, the investment risks should not be passed on to airlines through a pre-financing mechanism. Airlines should only pay for investment once the assets are in operational use, or in the case of large investments (see triggers in Q2 above) clearly defined milestones have been completed.

Q5 Should charges to recover the costs of CIP2006 be front or back-loaded?

We believe that costs should be recovered on a constant unit cost basis, with the per passenger charge remaining constant (in real terms at least). As such, this will involve a degree of back loading for the DAA, as they receive a higher level of revenues in later years due to the higher projected number of passengers in those years. A constant unit cost basis ensures that charges more closely (and more fairly) reflect the service that is received by each customer. Our reasons are covered further within our comments in Q11, Q13, Q14, and Q15.

Q6 What traffic forecast should be used when setting the price cap? Who should bear the risks if demand outturn does not correspond to the initial traffic forecast?

We believe that, if possible, the forecasts should be discussed and agreed between the DAA, airlines and the CAR as part of the constructive discussions over the investment plans. Ideally, this will involve the development of a realistic baseline forecast, with a degree of flexibility around the baseline based upon higher and lower growth scenarios. If agreement is not possible, the CAR should develop its own baseline scenario, bearing in mind that the DAA have an incentive to be overly conservative in their demand growth projections.

We recognize that there has to be a balance between risk and reward in any regulatory settlement. However, in this regard an airport with strong market power has a relatively low risk, especially as differences in actual versus projected demand levels can be reflected in subsequent regulatory reviews. Indeed, airlines bear a higher risk on traffic outcomes. In the event of traffic downturn or shocks, airlines are invariably obliged to reduce fares and yields, but still pay the same airport charges. In our view, the DAA is well placed to share the risks with airline users of demand shocks, especially as it stands to benefit from demand being higher than forecast.

We trust the CAR will bear this situation in mind when considering a balanced solution that protects the interests of the users.

Q7 What actions, if any, should the CAR take to strengthen regulatory commitment and credibility with respect to the level of charges it will allow in future determinations for the funding of CIP2006? Should the length of the price cap be increased?

The length of the price cap should be a period of four to five years, and reviewed at the end of each period. This length of time provides the necessary stability to facilitate longer-term planning while enabling efficiency incentives to be effective during each period. . It allows a reasonable trade-off between the time needed for the efficiency incentives to be realized while minimising the time lag before users can benefit from the efficiency gains.

Other airport regulatory regimes have previously considered longer-term pricing policies in recognition of the lumpy or stepped investment requirements of airports that overlap beyond the five-year price control periods. These have included long run marginal pricing and long run price paths. We did not support these proposals as in our view it was unrealistic to expect that assumptions could remain valid over such a long period and we were concerned that long run price paths could increase the monopoly power of the airports. Longer-term commitments are inconsistent with the CAR's ability to be flexible in response to changing market circumstances and to ensure that investment is delivered in the most timely and cost-effective manner.

Q8 Should terminal 2 be built to satisfy a busy-hour capacity of 4,200 and provide a level of service equating to IATA level C?

Q9 Is EUR 609m a reasonable estimate of the cost to build the proposed new terminal and pier?

Q10 Is EUR 3,500 per square meter a reasonable estimate of the costs of building a terminal that provides service standards equating to IATA level C? Is the metric of cost per square meter appropriate, or should some other metric be used, e.g. cost per passenger, cost per peak-hour passenger? Are the comparator airports cited relevant when thinking about the costs for T2? Is it appropriate to use benchmarks?

The consultation and negotiation process between the DAA and airline users is the best forum for deciding the appropriate level of capacity and service standard for the investment plan. This helps to ensure that the needs of users are properly taken into account.

However, as previously stated in our answer to Q1 above, due to asymmetries in the level of information held by the DAA and by airline users, the CAR has an important role to play in ensuring the investment costs are the most efficient that they can be. This requires an extensive benchmarking exercise against best practice in other investments. We believe this benchmarking should cover more than just a cost per square metre metric if it is to be effective, preferably involving metrics that cover quality levels and timing of investment too. Well-constructed benchmarks are appropriate to use. They are the best guide to ensure that the cost of investment is appropriate, and to ensure that excess costs are not allowed within the regulatory asset base.

Q11 What are the merits of using peak-load pricing for airport charges at Dublin Airport to fund T2?

Q12 What calculations should the CAR make if it decides to set a price cap that encourages the DAA to recover the costs of expanding Dublin airport by means of peak-load pricing?

We do not support peak/off-peak charging. In our view, such charges arbitrarily redistribute costs between airlines. Airlines have little opportunity to adjust to such a system in an efficient way due to the complex task of scheduling operations and maintaining economic utilization of aircraft and crew.

Airport capacity shortage is handled through slot allocation or coordination procedures. A charges system would not add any value to this procedure as slot coordination has to take global view in addressing capacity shortage. In this regard we note that Dublin is slot constrained and we presume peak capacity at the airport will be slot constrained until the opening of the new runway.

Capacity costs should be considered as joint costs to all users as it is difficult to allocate capacity fairly without influencing all airlines. All users should contribute their fair share to the joint costs. In our view the average cost pricing regime is therefore considered the most fair, transparent and equitable charging regime.

Q13 How much would users be willing to pay in airport charges for the improved quality experience that they expect T2 to provide?

Q14 What are the merits of using differential pricing when setting airport charges for T1 and T2 users at Dublin Airports?

Q15 What calculations should the CAR make if it decides to set a price cap that encourages the DAA to recover the costs of improved service qualities in T2 by means of differential pricing?

There is no justification for differential pricing. Our understanding is that T2 is planned to provide the same standard of service as T1. We believe that airports should provide a basic or generic level of low cost facilities and services for all airlines. Any airlines requesting higher level of facilities or service for which they are willing to pay a premium should agree this bilaterally with the airport through commercial negotiations.

There must be no discrimination between different groups of users with regards to charges as supported by ICAO policies. Airports should offer a generic level of low-cost facilities and services to all airlines to show their strong commitment to cost reduction, cost-efficiency and continual improvement. There should be no differential charging between airport terminal buildings. In our view the airport it is only acceptable to pay a premium charge where additional facilities or services are specifically requested and provided to individual airlines.

Most importantly, all airlines must be given equal and non-discriminatory access to any facilities that are to be built. On the basis of equal access, charges should not be discriminatory across different users who have access to the same standard of service quality.

Key reasons why all airlines should have access to facilities without differential pricing:

- To maintain the level playing field between airline competitors.
- To encourage airports to reduce costs and improve cost efficiency to benefit all airlines and passengers.
- Most of the facilities and services provided are generic to all airline customers.
- To keep the cost of air travel low.

Geneva, 9 March 2007