15th November 2004

Mr William Prasifka
Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Dear Bill,

We refer to the Dublin Airport Authority's submission and the rather lengthy consultant's report it commissioned NERA to produce. This report concludes that a Government decision that resulted in an allocation of all of Aer Rianta's debt to DAA could increase its cost of capital and that, essentially, the CAR must increase the regulatory CAP to compensate for this. A report in the Irish Times of 10th November contains similar unfounded spin from the DAA stating that the Authority *"could be in danger of losing its top credit rating because of high debt levels in the future."*

We would point out the following:

1. The former Aer Rianta management was responsible for the present high level of debt in Cork, Shannon and Dublin airports by building gold plated, inefficient facilities against the unanimous opposition of users and against the CAR's own findings with respect to capex. Users and consumers should not be forced to pay higher costs because of this incompetence.

2. The simple solution for dealing with this accumulated debt is to force the DAA to sell off its non-core and foreign holdings to pay down its debt, then its credit rating would be immaterial. These investments were made on the back of inflated charges at the Irish airports and should be sold of to reduce its debt and airport charges.

3. The current cap should also be reduced to reflect the huge inefficiencies that were originally identified by the CAR but then not addressed because of the weak efficiency incentives imposed by CAR on Aer Rianta. The new management of DAA must be incentivised to improve efficiency and reduce costs, which would lead to increased traffic and revenues and improve their credit rating.

We agree with the comments of the Competition Authority that *"in a competitive environment, prices are constrained by competition and cannot simply move up in order to accommodate the need to increase retained earnings to ensure the financing of the airport debt"*.

The former Aer Rianta management created this mess with the CAR standing idly by and allowing them to get away with it. It is now time for the CAR to take some decisive action and force the DAA to sell off non-core assets, improve efficiency and lower their costs.

Yours sincerely,

Jim Callaghan
Head of Regulatory Affairs and Company Secretary

CC: Martin Cullen, T.D., Minister for Transport