Comments on Commission Paper 3/2009: Draft Determination.

Passenger Forecasts.

The assumptions made are too high. Extrapolation of monthly trends over the past 18 months from January 2008, indicates that total passenger numbers for 2009 will be below 20 million and will not be the 21.0 mppa assumed in Table 6.1. Passenger numbers will continue to fall in 2010 and will be well below the 20.7 mppa assumed (probably about 18.5 mppa). The CAR's economic growth assumption of -1.1% for 2010 is too optimistic as it is likely to be nearly -3%. As the CAR promises in 6.7 their passenger forecasts will have to be reviewed in the light of the latest macro-economic outlook.

The economic growth assumptions used by the CAR are optimistic. There is a wide consensus among economists that our economic recovery must be based on export growth led by improved competitiveness but that it will lag EU recovery, which in turn will lag US recovery. The IMF has pointed out that the combined synchronous and financial nature of the worldwide recession means that it will be severe, protracted and recovery will be slow and weak: "Recessions that are associated with both financial crises and global downturns have been unusually severe and long-lasting." [1]

Nobel Prize-winning economist at Princeton, Paul Krugman said in Dublin on 5 June last that Ireland's economy will experience "long slow grinding deflation". There will be no rapid bounce back after the sharp fall, which was due to over-borrowing and a very relaxed attitude to debt. He said it would be at least five years before Ireland's economic growth matches that of the rest of the euro zone and Ireland could be facing a "lost decade" of economic stagnation." In Dublin on 4 June last Professor James Galbraith said that "the forces [credit booms and inflows of private capital] that gave us these periods of prosperity cannot be recreated anytime soon and indeed even if they could be it wouldn't be a good idea to attempt to do so."

Recovery, when it comes will therefore be slow, and it is unlikely that passenger numbers, which are largely driven by economic growth, will grow at anything like the rates of recent years. Following the 15.5% fall in passengers of 2009, we assume a further 6% fall in 2010, no further fall in 2011 and a 3% per annum recovery thereafter. We believe this scenario to be quite reasonable and it implies a recovery to 30 mppa by 2027.

Passenger trigger.

The 23.5 million passengers per annum trigger for the runway is too low. The capacity of the airport without the proposed runway is about 30 mppa. Declan Collier, CEO of DAA gave a maximum capacity figure of 60 million passengers per annum to Pat Kenny on RTE Radio 1, on 21 September 2006. Ciaran Scanlon, DAA programme manager, gave a capacity figure of 55 million to Fingal Independent, 30 August, 2006. The Indecon report, Economic Development Strategy for the Metro North Economic Corridor, confirms that 58 mppa might be achieved by 2020 on a high growth scenario (chart page iv). It follows that the capacity of the existing runway structure must be of the order of 30 mppa, at least half Mr. Collier's 60 mppa.

Whenever a recovery arrives, growth will not return to the 1-2 mppa of recent years. It is more likely to be of the order of 3% per annum or 0.6mppa. Assuming three years to build a runway, it needs only be triggered when passenger numbers reach about 28 mppa, probably in 2025.

In arguing this we are not accepting that mppa is a sufficient condition for building a new runway because it is an indicator of a raw demand that itself is driven by a distorted pricing of airport services. While it is a much better indicator than the DAA's proposed busy period micro triggers, we do not accept that such demand is a real demand as prices are distorted by many factors, not least the failure to charge for the use of public land at Dublin Airport and to incorporate social pricing into the charges to reflect real marginal social costs when externalities are included. Demand would be quite different if airport charges were set according to social pricing which took account, not only of full costs including the opportunity cost of existing land resources, and the impact on land values under the new flightpath, but also of the social costs of airport expansion, including noise, air pollution and congestion externalities as well as global warming impacts. For example, a shadow price of carbon should be part of the charge.

While it appears very unlikely that the proposed trigger (23.5 mppa) for the runway will be activated during the current period (2010-2014) we are concerned that the trigger, if authorised by this determination, will carry over into the next and subsequent periods.[2] Either the CAR should rule, on the basis of recent evidence, that the runway is definitely off the agenda for the 2010 – 2014 period or should clearly indicate that the proposed runway trigger for the 2010 – 2014 period will not automatically apply to later periods. Further, it makes no sense to allow an automatic trigger for passengers to begin paying for the construction of a runway when the design and costs of such a runway are again up in the air.

What runway would be triggered?

The CAR is aware that the DAA's new runway proposal is in rather a mess. At the CAPEX consultation meeting in the Radisson Hotel on 6th May last we asked the DAA to clarify their plans on the runway given that they were reported to be applying to change the conditions on the existing new parallel runway permission (R2a) but are also preparing an application to ABP for a new 3660-metre parallel runway (R2b). Mr Colm Moran of DAA said that the DAA had decided it was too risky to apply to change the conditions on R2a as the Board had overruled the inspector using those conditions and would not like to see that decision challenged. Therefore the DAA would bank the R2a permission, with conditions attached, for now. They will also apply to ABP for approval to submit an application for R2b under SIA. If that fails, ultimately they can revert to the R2a permission, which is a ten-year permission, and try then to change the conditions at that time. It follows that the CAR cannot know what the costs of the proposed runway are and should not approve any trigger mechanism to allow an increase in charges to recoup nearly €300 million most of which is for the construction of a runway that is neither designed nor costed – not to mention fully evaluated by a Cost Benefit Analysis, as required by government guidelines. How can the CAR authorise what it describes as “the most significant trigger in terms of its effects on the annual price caps” when most of the nearly €300 million CAPEX is for a smaller runway than the one the DAA now intends to seek planning approval to build?

Annex 1: Definition of RAB (A1.4)

We have reservations with the definition of the RAB as: “a valuation of the DAA’s asset base designed solely for the purposes of making a determination…” and: “ It is not a fixed-asset account”. This reasoning is circular. It says we need RAB for the determination of charges, but the RAB is defined solely to suit that determination in the interests of the DAA’s operations. This definition is open to abuse. It is not transparent and methodologically sound if it is not based on some clear and widely understood principles of asset valuation. In effect, like Humpty Dumpty might have told Alice: “the RAB means just what I choose it to mean.” It might be compared to an accountant who says: “I will define depreciation as it best suits the prospects of the company whose accounts I am preparing.”

McCarthy Report

A few quotes from the McCarthy Report are apposite to the asset valuation question:

> "G.4 Identify real estate portfolio
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> The OPW should, as a matter of priority, identify all real estate assets held by the State. The Group is of the view that real estate assets could be more efficiently managed by one organisation rather than having ownership of assets vested in a range of different Departments and agencies (commercial and non commercial)."

Note that "commercial" bodies, such as the DAA are included. The report repeats this specifically for agencies of the Dept. of Transport (such as the DAA).

> "Dispose of non-essential land/property holdings
>
> The scope to dispose of non-essential land/property holdings owned by state agencies under the aegis of the Department (of Transport) should be investigated, with a view to offsetting operational losses and/or reducing the dependency on Exchequer support. In a situation in which the State’s net borrowing is increasing rapidly, there is no rational justification for holding on to unused assets that yield no return. The excuse that property prices are now too low to sell is not necessarily valid."

Further:

> "The Department of Finance should issue updated and enhanced guidelines...These guidelines should, in particular:

> • require all Departments and agencies to detail and justify their current property holdings before further sanction to spend capital is granted;
> • provide for sanction in respect of 5% of capital expenditure to be withheld pending receipt of this information
> • require all Departments and agencies with surplus property to surrender it to OPW for disposal; and
> • remove any veto Departments may feel they have over property proposals relating to them made by OPW;"

And:

> "Strategic management of land/property portfolios
>
> Overall, there is a strong case to merit a review of the land and property asset base across the Transport sector. It is not at all certain that individual agencies/companies within the sector whose expertise is in running a transport service – are always best placed to recognise the potential for developing or realising their asset base, /or indeed to handle projects where the land/property aspect of a proposal can be very significant."
>
> […]
>
> "There is merit, therefore, in developing a central role in providing the State companies and agencies with professional property/asset management services that would ensure an optimal return for the State."

On the need for better dividends:

> "The Group also suggests that there is scope for increased revenue generation within the sector from:
>
> > • more regular shareholder dividend payments from the commercial state companies, including from the Dublin Airport Authority, the Irish Aviation Authority and the national ports, reflecting profits and gains of these fully state-owned commercial bodies;"

In essence, the report favours a centralisation of the management of state assets with a view to generating a better return for the taxpayer, delivered by better dividends (from commercial state bodies). Agencies, such as the DAA, cannot be relied upon to do so, especially where they are the advocates of projects that are land-intensive, such as the proposed parallel runway. The proposed approach of the CAR for "a valuation of the DAA's asset base designed solely for the purposes of making a determination" is totally inconsistent with McCarthy's proposal for a more transparent and consistent management of public assets, in the national interest. It would be completely anomalous to have the DAA's land assets valued on some meaningless historical (almost zero) in the RAB when they must also be incorporated in a centralised register and valued in a manner consisted with all such public assets.

Historical Costs: A1.6

It is proposed to use indexed historical costs when valuing the RAB.

The historical cost approach is not appropriate to land. At least 800 acres of land at Dublin Airport is valued at some fraction of €20 million. That is absurd and is probably based on some ancient historical costs. This may, in fact, be the figure for the land assets of all three state airports, and not just of Dublin Airport.[3] Whichever it is, and whatever land is actually included at these airports, it is clearly a ridiculously low figure.

It would be usual for the value of land under existing structures to be reflected in the value of those structures, and such land may be assumed to be captured in the existing RAB. At a minimum the land value puts a floor value on such an asset but it is not at all clear that the RAB properly values such assets. However, it is clear that land available for development, including brown-field sites, should be valued at market prices and regularly updated. In the light of the recent NAMA legislation there might be a case to value land at some longer-run economic value. Such land would include the 800 acres to be devoted to the proposed new runway and land to be made available to the Airport City project. As McCarthy recommends, we clearly need an inventory of Dublin Airport's assets, including all land. The CAR's use of an old Aer Rianta valuation of land assets is no longer acceptable.

The CAR proposes to apply the CPI as an index to historical cost. That is wholly inappropriate to property and the relationship between the CPI and property, including land, is very tenuous. This should be very obvious in the light of our recent experience with property prices.

Asset Disposal: A1.18

We are concerned with the proposed RAB treatment of assets disposed of, in particular how land might be treated. As already mentioned Dublin Airport land is hardly valued at all in the existing RAB. If some very valuable land, including sites close to the proposed Metro, is disposed of it is not at all clear how that would impact on the RAB and ultimately on charges. In the case of land it appears that the RAB would be reduced by an excess measured relative to a valuation that is effectively zero in the existing RAB.

The explanation in Scenario 7 is not clear. The incentive effect supposed to induce the DAA to seek the best price seems odd. As the DAA would like to see the RAB high, it is not obvious how deducting a maximised excess from the RAB is an incentive. If, for example, the 800 acres to be consumed by the proposed runway was disposed of at €1 million per acre, the RAB would be reduced by almost the full €800 million, dropping charges by some €3 per passenger.[4] That is unlikely to appeal to the DAA. It also means passengers and airlines would gain at the expense of taxpayers. It is also unclear how those €800 million cash assets would then be treated. Should cash assets be treated as part of the RAB, on which the DAA is required to earn a 7.4% return for the taxpayer or should they return to the Exchequer? The reasoning behind the proposed RAB treatment of assets disposed off needs clearer explanation.

Exclusion of Improved Runway 11/29 option.

The CAR should not exclude the option to develop the existing runway 11/29. Even if an improved 11/29 was limited to 30 aircraft movements per hour, that would not be a serious limitation. The capacity of 48 movements per hour on existing runway 10/28 and an additional 30 movements per hour on 11/29 gives 78 movements per hour.[5] This would allow expansion of the airport to 50 mppa. On present trends that would suffice for 35 years, or until 2044.

The old cost estimates undertaken for the DAA by consultants SWK (in 2004) were wrong. SWK only costed land to be purchased and ignored land already owned. It further ignored hundreds of additional acres that would be released to the west, if the improved 11/29 options had been pursued.[6] If that analysis was redone properly and in the light of current conditions, it would surely show that it was a better option than the DAA's R2 proposals.

Contrary to the assertions of the DAA, the proposed parallel runway is not the best option on cost per movement grounds. In the interest of an efficient use of public assets and the CAR's understanding of the 2004 State Airports Act's economic efficiency requirement, the CAR should insist on a proper evaluation of that option, especially in the light of the current public finance crisis and the reduced longer-term passenger growth prospects.

If a net 500 acres of land were released by the 11/29 option, at €1 million per acre it would pay for the improved 11/29 a few times over and remove the need for any increase in passenger charges at all. The past failure to analyse this option properly must be of concern to the CAR.

That being said, while an improved 11/29 is probably a better option that the proposed R2 (a or b) we do not believe it is the best option for the future of our aviation infrastructure. Only a full Cost Benefit Analysis of all the options, including that of a second airport in the GDA, can properly address that question.

Matthew Harley
Portmarnock Community Association
4 August 2009

[1] World Economic Outlook, Crisis and Recovery, International Monetary Fund, April 2009. See: http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/text.pdf

[2] On our figures the proposed 23.5 mppa will not be reached until 2019.

[3] Dear Sir,

I refer to my e-mail of last week. I understand that the figures used are based on those as published by Dublin Airport Authority in its annual report of 2005. Note 10 to the financial statement of that report states that the figures in respect of lands and airfields, for group and company, include airport land at a cost of €19.6 million.

I have no further details.

yours faithfully,

David Hodnett

Deputy Head of Legal Affairs
15/5/2006.

[4] The total land at all three state airports is 5281 acres. If the €19.6 million valuation is for all this land, it is valued at €3,700 per acre. This puts the book value of the 800 acres at €3 million when it is worth something like €800 million, even in these difficult times.

[5] For 48 movements on 10/28 see: DAA's CIP 2010 – 2014 page 48 at: http://www.aviationreg.ie/_fileupload/Image/2009-03-02_DAA_CIP_2010-2014.pdf

[6] It might appear that the total land used by the proposed 10L/28R and an upgraded 11/29 would be about the same. However, even if that were the case, land that had to be purchased for an upgraded 11/29 would then be offset by the same amount of land already owned by Dublin Airport, but not then needed for 10L/28R. The cost of the purchased land should still not have been an issue in the decision made by the DAA to reject the 11/29 option. However, the 11/29 option will release much more land than the 47 hectares (116 acres) needing to be purchased. Dublin Airport land not needed for 10L/28R amounts to about 600 acres, leaving a net gain of about 500 acres. A large part of this land is hundreds of acres of Dublin Airport land to the west of the proposed 10L/28R. According to the Dublin Airport Masterplan this land is destined for an eventual extension to 10L/28R.