RYANAIR'S COMMENTS ON OTHER SUBMISSIONS TO THE COMMISSION FOR AVIATION REGULATION

16th April 2001

1. INTRODUCTION

Ryanair welcomes the opportunity to comment on the submissions of other interested parties to the Commission for Aviation Regulation ("Commission"). This initial consultation period has already yielded a very welcome airing by users of the serious problems with Aer Rianta's monopoly provision of airport services at the Regulated Airports. In particular, Aer Lingus' submission clearly confirms the complete absence of effective consultation at the Regulated Airports and its consequences in terms of Aer Rianta providing inefficient and overly costly facilities.

Aer Rianta's submission to the Regulator seeks to further strengthen the monopoly pricing model that has been adopted by Aer Rianta in recent years and to restrict the scope of the Commission to such a narrow extent as to make the entire regulatory regime redundant. The Commission must send a clear signal to Aer Rianta that its inefficiency and the substantially increased prices it introduced during the "regulatory vacuum" (i.e., the 18-month period between the appointment of the Commission and its empowerment in February of this year) will not be rewarded. The Commission must therefore take a very rigorous approach up front and force Aer Rianta to reform its monopoly-oriented pricing policies and management style.

2. AER RIANTA'S SUBMISSION

Strangely, Aer Rianta quotes the Department of Public Enterprise's 1998 Statement of Strategy but appears to have substantially paraphrased it, thereby de-emphasising the Department's original objectives. It is therefore worth again reproducing these objectives below to clarify exactly what was contained in the DPE's mandate:

- Provide the necessary infrastructure and services at Dublin, Shannon and Cork airports, **at the lowest possible cost** consistent with safety and commercial operations.

- Provide a financial return to the shareholder (Government) consistent with the foregoing requirement.

- **Promote the development of traffic at Dublin, Shannon and Cork airports; and**

- Exploit new business opportunities provided they are organically linked to the company's core business and **do not detract from core responsibilities.**

Aer Rianta's behaviour over the past two years in massively increasing costs to all airport users (airlines, commercial tenants, travelling passengers) has demonstrated that Aer Rianta has no commitment to providing infrastructure and services at the lowest possible cost, nor has it any commitment to promoting the development of traffic. Aer Rianta's submission to the Commission further confirms this absence of commitment to achieving these policy mandates.

Aer Rianta and Competition

Since airport charges form the principal variable cost in an airline's selection between competing airports, its follows therefore that the issue and level of airport costs and their trend (rising or falling) has a profound impact on the decisions of airlines to expand services on existing routes or open up new routes. Aer Rianta's Irish airports have over the past four years lost out on up to 30 new routes, all of which have been launched by Ryanair between the UK and Europe solely because of the uncompetitive (high and rising) cost base and inefficient facilities at the Aer Rianta monopoly airports. Since by its own admission, the Aer Rianta airports account for 97% of the traffic to and from this State, it follows therefore that the Aer Rianta airports are an effective monopoly in this State that have no real/effective competition.

Aer Rianta's submission that Belfast provides competition to Dublin is completely unsustainable. The two Belfast airports are some 3 hours drive away from Dublin Airport, which is well beyond the range normally regarded as corresponding to the hinterland footprint of an airport (approximately 63 miles or 100 km according to a report of the Department of Transport, Energy and Communications).

Furthermore, Aer Rianta attempts to argue that airlines are sufficiently able to counteract any market power Aer Rianta may have. However, in a situation where the two largest customers, accounting for 70% of the airport's business, are unable to prevent the monopoly airport operator from doubling the airport charges in the space of two years and where these airlines have failed to successfully secure their facilities requirements from the monopoly airport operator, there is clearly no effective bargaining power on the part of those airlines. The submissions of both Aer Lingus and Ryanair clearly highlight their lack of bargaining power vis-à-vis the airport monopoly.

To suggest as Aer Rianta does that competition exists in relation to the provision of various non-aeronautical facilities such as retailing, catering, service facilities, transport and car parking is clearly at variance with the facts. In most cases, these services are restricted to either one or a small number of outlets, all of whom pay monopoly level rents (or levies) to Aer Rianta. In the case of retailing, Aer Rianta has pursued a policy of only permitting one operator of a particular service at the airport (e.g., news agents - Hughes & Hughes; banking services and Bureau de Change - Bank of Ireland), thus creating monopolies at the retail level that generate monopoly revenues, a large portion of which are then passed on to Aer Rianta. In the case of car parking, it is astonishing that Aer Rianta would attempt to argue that there is anything other than an absolute and much abused monopoly, with Aer Rianta continuing to use every possible legal device (including most recently judicial review proceedings against planning permission granted for a car park adjacent to Dublin Airport itself) to impede such competition.

Furthermore, as discussed in our submission, Aer Rianta has a monopoly on the numerous ancillary services it provides (cleaners, security, etc.). All of these services must be outsourced to increase efficiency and reduce costs.

Framework for Regulation

Our overriding objection to Aer Rianta's proposed framework for economic regulation of airport charges, is that it is designed to promote and protect the continuation of the monopoly control and pricing which Aer Rianta exercises at the Regulated Airports, and is designed in every instance to prevent a regulatory regime which would replicate the effects of competition, were competition to be introduced to Aer Rianta at the Regulated Airports. The purpose of the Commission is to attempt to replicate the practical effect of competition in an environment where competition does not exist.

1. Aer Rianta recommends that the three airports be regulated as a single unit. Again, if competition was introduced at each of the three airports, they would operate independently of each other in response to this competition. One would not be allowed to cross subsidise the other, and equally Aer Rianta would be prevented from exploiting its ownership of the three airports to limit the development of Shannon and Cork in order to protect the high charge regime at Dublin, which is presently the case. It is quite clear that the costs at each of the three airports are different, and they should be regulated individually.

In fact we would go further and recommend that all of the hidden costs of Aer Rianta's overhead be separated out from the airports and dealt with separately. Regulating the three airports separately would permit the Commission to examine the performance of each of the three airports individually, and would allow Aer Rianta far less opportunity for hiding cost inefficiencies and overheads in a group structure. It would also lead to less gold plating; less unnecessary capex and opex; and more efficient facilities tailored to each airport, as opposed to the "one-size-fits-all" approach currently followed by Aer Rianta. Moreover, individual regulation would free Shannon and Cork Airports from the chronic inefficiency of the Aer Rianta Head Office and would enable them to develop along the lines of their specific regional needs.

2. We agree that the determination specifying the maximum airport charges at each of the three individual airports should be measured in the form of the actual charge per passenger for all of the airport/aeronautical services provided by the airport to those passengers. Under no circumstances should the airport operator be allowed to determine an overall limit on airport charges in the form of a revenue yield per passenger, since this will simply allow Aer Rianta to continue to unjustifiably increase aeronautical charges whilst subsidising their own cost inefficiencies and other revenue streams from other ancillary activities.

3. The price cap should initially be set by reference to the actual prices being charged by Aer Rianta two years ago, prior to its doubling of the airport charges over the past 18 months during the regulatory vacuum. Following this rolling back of these increases, the Commission should then apply a severe CPI-X formula to determine the appropriate charge. Ryanair is aware that even at the pre-1999 charges, Aer Rianta was seriously inefficient and a harsh price cap would be necessary to counteract the level of "padding" Aer Rianta has built up in recent years, e.g., no jobs losses or cost cutting following the loss of duty free.

The price cap level should not be adjusted to take account of the capital investment profile of Aer Rianta.

The one thing missing from the entire submission by Aer Rianta is any commentary on other possible sources of funding such as public/private finance initiatives, government funding, user co-funding (along the lines proposed by Ryanair for the second terminal). Ryanair's preliminary comments on the 20-year master plan (attached as Annex 1 hereto) demonstrate that Aer Rianta contemplated such alternative funding options and indeed has pursued such options on an inconsistent and often discriminatory basis.

Nevertheless, Aer Rianta's submission is predicated upon increasing current charges in order to fund its continuing profligate expenditure in inefficient capital projects, which are neither needed nor required by Users. For example, the plans for a second runway at Dublin Airport, despite the fact that the airport had less than 14 million passengers last year, whereas Gatwick operating with one runway can accommodate more than 30 million. Equally, the recently announced plan to build an internal rail network at Dublin Airport (at a cost of approximately £100 million), typifies Aer Rianta's haphazard and abusive approach to capex.

4. We are firmly of the view that there should be a strong incentive mechanism built into the price cap. The Irish Government-imposed price rebates and new route/growth incentive schemes during the period between 1987 and 1998 were crucially responsible for the dramatic scale of new route and traffic growth at the Regulated Airports during that period. Similarly, it is the incentive-type pricing policies being promoted by certain UK airports (including Stansted/Luton/Liverpool/Glasgow Prestwick, etc.) that have resulted in the massive growth at these airports over the past three years, in contrast to Dublin Airport, has seen its growth rate slow markedly during these 3 years. The table below, which is reproduced from the University of Westminster report we submitted with our submission, graphically illustrates this:

Annual growth in scheduled passengers 1995-2000
Dublin and selected UK airports

Between years	**Growth in scheduled passengers (%)**					
	Dublin	**Dublin (UK only)**	**Stansted**	**Luton**	**Liverpool**	**Prestwick**
1995-96	15	15	23	116	12	118
1996-97	15	13	11	66	18	11
1997-98	11	9	33	37	29	-6
1998-99	9	4	52	42	72	25
1999-2000*	5	0	37	28	107	21

* based on Jan-June 2000 compared to Jan-June 1999

Ultimately, the success of the Commission and its impact will be determined by the extent to which it promotes competition and growth at the Regulated Airports, as opposed to the monopoly-induced stagnation of recent years.

5. We do not share Aer Rianta's view on sharing productivity and efficiency benefits or their "glide path" proposal, particularly in the short to medium term. We are firmly of the view that the initial price cap level for the first five years should be a significant and substantial reduction on present levels, by rolling back recent price increases and applying a severe price cap. Only this type of aggressive regulation that will force Aer Rianta to actually achieve productivity and efficiency benefits. The record of all other regulated industries has been that the more stringent the regulation, the greater the productivity and efficiency gains that were realised.

6. Under no circumstances should protection be factored into the determination against increases in costs that are outside Aer Rianta's control due to policy or legislative requirements. This is the same excuse that Aer Rianta has indulged in in recent years. Aer Rianta had eight years notice that duty free was to be eliminated in July 1999. Despite this, Aer Rianta made absolutely no attempt whatsoever to reduce costs or stimulate other revenue streams at the airports to prepare for the elimination of duty free. Furthermore, the CAA recently stated in its consultation paper entitled "Pricing Structures and Economic Regulation" that "cost pass throughs are, by their very nature, in conflict with the incentive properties of price cap regulation" [2] . The CAA therefore has a "strong presumption against allowing pass throughs unless there are compelling arguments in favour of them".

Indeed most of Aer Rianta's overseas and ancillary investments (e.g., Aer Rianta International), which were specifically justified at the time as helping to defray Aer Rianta's costs when duty free would end in 1999, were not used for this purpose and Aer Rianta simply doubled the charges to Ryanair and other airlines, as well as significantly increasing charges to other airport users and consumers to compensate the monopoly for the loss of duty free profits. Again, these overseas investments should be divested as they have not been successful in keeping the charges at the Regulated Airports low. As previously noted, the sales proceeds of these non-core investments could be used to finance capex and pay down existing debt rather than increase user charges, as Aer Rianta proposes to do.

7. The price index in the formula is not as material as the base to which it is to be applied, i.e., whether it is CPI or some other index. Aer Rianta, having increased its charges to the airlines by more than 100% over the last two years, has already secured a massive increase in prices and revenues before the empowerment of the Commission. Regardless of what price index is used, we believe that a root and branch analysis of actual costs is necessary and significant reductions applied to the 1999 (i.e., pre-appointment of the Commission) cost base at the Regulated Airports.

The Regulatory Till

As noted in response to Question 27 of our submission, we are strongly of the view that the single till is the appropriate mechanism for regulating the Irish monopoly airports. Other submissions, including that of IATA, agree with this approach. Aer Rianta attempts to cloud the issue by citing "widespread criticism of the single till on both economic and commercial grounds." However, at Section 9.3 of its submission, Aer Rianta itself recognises the success of the single till in the 1990's in terms of being able to undertake its capital programme without increasing airport charges. The loss of duty free is immaterial given that it is not the only revenue to be included in the single till.

As we pointed out in our submission, the focus of the debate on the single till is on congested airports, which is not the case at any of the Regulated Airports. Even Aer Rianta acknowledges that where an airport facility has available capacity the introduction of a single till mechanism allows an airport authority to reduce airport charges sufficiently to encourage airlines to use the available infrastructure and develop air traffic. Furthermore, the Competition Authority's submission recognises that an incentive to exploit the demand complementarities between aeronautical and non-aeronautical activities exists up until the point where capacity constraints emerge.

The great strength of the single till is that it most accurately replicates a competitive environment. If there were two airports or even two terminals competing in Dublin, for example, then the income they generated from all sources (aeronautical, non-aeronautical and ancillary) would be used to promote and advance competition and growth with regard to traffic numbers in the form of lower costs and improved services to customers.

In addition, the CAA has recognised that the airport operator would gain a "double windfall" from a switch to a dual till, i.e., (i) increased aeronautical charges (Aer Rianta confirms in its submission that a switch to a dual till at the Regulated Airports would result in higher aeronautical charges); and (ii) the airport operator would have complete control over revenues from the commercial till, despite the fact that it is the airlines that provide the demand for commercial services. A recent publication by Credit Suisse/First Boston, quantified the affect of this double windfall to the airport [3]. With regard to the BAA, Credit Suisse predicted that a move to a dual till would have two main affects on the BAA: faster profit growth and higher returns. Specifically, on the basis of its assumptions, Credit Suisse predicted that BAA's earning per share (EPS) growth would accelerate from 7.1% under the single till to 9.6% under a dual till approach. This is clearly Aer Rianta's driving motivation for a dual till approach.

This windfall issue is very relevant in the current context. The Commission will be aware that Aer Rianta publicly accepted a single till approach to regulation until very recently and indeed has been using the single till as a partial justification for introducing and increasing various "non-regulated" (to use Aer Rianta's parlance) "interim" charges. (See response to Question 39(4) of Ryanair's submission). Aer Rianta's justification has been that the Commission will be able to examine these increased charges as part of its determination. However, now that Aer Rianta has taken full advantage of the regulatory vacuum to raise numerous non-aeronautical prices, it now proposes to shut the door to regulatory review of these charges by advocating a dual till approach.

The Commission should therefore adopt a single till approach to regulating the charges at the Regulated Airports.

The Regulated Asset Base

As discussed in response to Question 16 of our submission, Ryanair strongly recommends that the regulated asset base ("RAB") be valued at net book value (i.e., historical cost less accumulated depreciation). Again, this best replicates what would be the case were a competitive environment to exist at each of the Regulated Airports. The suggestion from Aer Rianta that the replacement capital approach be applied to asset valuation is the typical mind-set of a monopoly. We strongly recommend that the Commission apply the net book value of the assets, and furthermore that the Commission should follow Aer Lingus's suggestion and exclude (through this asset valuation) the profligate capex of the past two years (i.e., Pier C and the 6 bay extension) which was spent without consultation with users to inflate its capital base prior to the introduction of regulation. The fact that the two principal airline users Aer Lingus and Ryanair do not use either Pier C or the new terminal extension provides further justification for the exclusion of this wasteful capex from the RAB.

To use anything other than net book value, would reward Aer Rianta for its over specification and overly costly design and layout of many of its capital assets. In addition, under generally accepted accounting principles (GAAP), public assets should be based on historical costs. To use replacement capital cost would unfairly reward Aer Rianta for the value of assets which it did not pay for itself (either because Aer Rianta received substantial grant assistance towards the construction of these facilities, and because Aer Rianta has been exempt from corporation tax in this country until last year). By proposing a revaluation, Aer Rianta is seeking to generate super profits on depreciated assets. Such a revaluation would establish a highly inflated cost base at Dublin Airport and there would be no incentive whatsoever for Aer Rianta to increase efficiency, reduce costs, or stimulate traffic growth.

Replacement costs of capital would also penalise Users by rewarding Aer Rianta for designing over specified facilities which users neither wanted, need, nor use. A perfect example of this would be the £50 million that was wasted on Pier C, a facility which despite its extraordinary costs is used by less than 18% of the traffic passing through Dublin Airport. Using replacement costs would result in the bizarre outcome that the price sensitive (poorer) consumers using the inferior A Pier facility would be cross-subsidising the more affluent, price insensitive passengers using the Pier C facility (as they currently are under the existing pricing regime following the unwinding of the Pier A discount).

Aer Rianta's Ability to Fund Future Capex

As noted in our submission, there are numerous alternative funding avenues open to Aer Rianta for additional capital expenditure, once that capital expenditure has actually been justified to the Users. The disposal of non-core assets including the Great Southern Hotels Group, the non-productive investments in Dussledorf and Birmingham Airports, the overseas duty free investments, all of which have been funded in recent years from the tax exempt profits at the Regulated Airports, can be disposed of to retire Aer Rianta's existing debt and to fund additional capital projects. In addition, we recommend that further capital expenditure is also funded by developing partnerships with users, by tapping into the public/private finance initiatives, or the many tax efficient low cost capital funding alternatives which are available in the Irish market at present.

A very aggressive regulatory regime over the next five years will therefore not place any constraints on Aer Rianta's capital expenditure programme, provided that such capex is justified.

Cost of Capital

We agree with Aer Rianta that the rate of return allowed to a regulated company should be the equivalent to its cost of capital on new investment. The cost of capital should be based on net book value. As noted in our submission, the cost of debt used to estimate Aer Rianta's weighted average cost of capital (WACC) should be its current cost of debt, which is low given the low risk nature of Aer Rianta's business and the fact that the Irish Government is the final underwriter. This risk would be further diminished if Aer Rianta made use of other forms on investment (discussed above) to fund investment.

Capital Investment

In Section 9.1 of its submission, Aer Rianta expresses concern that the Commission could monitor closely its capex programme. It is precisely because of its egregious record in capital expenditure that such monitoring is both necessary and required. The history of Aer Rianta in this regard is well documented in the submissions provided to the Commission as part of this process.

Aer Rianta argues that the ability of an airport to grow and evolve with the growth of its traffic is greatly influenced by the ability of the airport authority to plan for the proper development of the airport in the very long term. According to Aer Rianta, this contrasts with the more short-term focus of the airlines who have the ability to move their aircraft in response to market conditions to any location. This implies that the Users have no interest in the long-term development of the Regulated Airports. This is astonishing considering that the two largest carriers at the Regulated Airports, Aer Lingus and Ryanair, are Irish based and therefore have a crucial interest in whether Aer Rianta is making timely and cost efficient investments.

Capital Investment Programme during the 90's

Aer Rianta's reference to "significant annual cash surrendered to the Exchequer" is misleading. The dividend paid to the Exchequer during the 1990's was set at levels which would have been payable to the Irish Exchequer were Aer Rianta not exempt from corporation tax. The surrender was no more than the level of the corporation tax which Aer Rianta should have been paying were it a stand alone company. Furthermore, the elimination of duty free has not seriously reduced the ability of Aer Rianta to fund its growth plans. This elimination merely highlighted Aer Rianta's inability to plan for the future. Aer Rianta had eight years notice of the ending of duty free, and no attempt at cost saving, efficiency enhancement, or the development of other revenue streams at the Regulated Airports was made during that period. As a result in the year 2000 Aer Rianta returned the airport charges to the high level they were set at in 1987 despite the fact that the total traffic at the Regulated Airports more than quadrupled between 1987 (4 million) and 2000 (18 million) and average air fares are currently a mere fraction of what they were in 1986.

Aer Rianta states that it had the lowest (historical) capital expenditure in its peer group during the 1990's. Whilst these figures exclude the profligate development costs of Pier C and the 6 bay extension, which were completed in 1999/2000, it also depends on who is represented in the peer group and the time frame used to measure the capital expenditure. It also highlights the difficulty with benchmarking. In addition, it refers to the next stage of development and cites the necessity to allow time for planning approval to be obtained. However, as noted in our submission, Aer Rianta has had planning approval for the agreed Pier D facility since 1998 but still has not proceeded to build this facility, despite the fact that both Ryanair and Aer Lingus have openly supported this low cost facility and Ryanair has offered to finance it. Ryanair's preliminary comments on the Dublin Airport Master Plan Study (attached at Annex 1) indicate that, based on Aer Rianta's own figures, Pier D would be the most efficient pier at the airport, with an annual throughput of 10.1 million passengers. It is therefore inexplicable why this pier has not been built and the Master Plan provides no indication of why it was suddenly removed from the Plan.

Current Capital Programme

Aer Rianta states that the elimination of the intra-EU duty free revenue stream has seriously reduced the ability of Aer Rianta to fund its growth plans internally without adjustment (i.e., increase) of the airport charges levels. Again, there is no reference anywhere in Aer Rianta's submission to any cost reductions or efficiencies that were promoted during the eight years notice Aer Rianta and others had of its termination. Aer Rianta's only solution is to raise its charges. This is not reflective of a competitive environment at the Regulated Airports.

As the Commission noted in its Consultation Paper, it is necessary that Aer Rianta's investment plans are carefully scrutinised as to their timing and efficiency. Ryanair concurs with Aer Lingus' proposal that the Commission must provide support for establishing a forum, with powers backed by the Commission, in which Users will assess, advise upon and approve investment plans.

Traffic Forecasting

Aer Rianta's traffic projections will be meaningless if it is successful with its recommendations to the Commission because with even higher costs at the Regulated Airports, traffic will stagnate, and possibly decline (as it already has from our largest market - the UK).

In its submission, Aer Rianta quotes traffic growth for the period 1995 to 2000, much of which was delivered between 1996 and 1998 when there were significant reductions in charges at the Regulated Airports for traffic growth, which in turn led to dramatic increases in the capacity on existing and new routes and intense competition between Ryanair and Aer Lingus. In later years (1999 - 2001), this era of aggressive expansion has been ended by the dramatic increase in costs imposed on the airlines by Aer Rianta and there has been no significant capacity or new route development and traffic has stagnated. This is demonstrated most recently by Bord Failte's traffic statistics for 2000. These statistics show that there was little growth at the Regulated Airports (other than Ryanair's expansion at Shannon last year). The UK market has stagnated, the Continental market is characterised by low levels of growth on scheduled services, but strong growth in outbound charter traffic, namely sun and ski holiday packages. This market whilst small will continue to grow strongly as long as Irish GNP grows strongly, but it will not deliver the type of growth necessary for Aer Rianta to achieve the 20 or 30 million passengers predicted within the next ten years and certainly does not deliver the kind of inbound tourist traffic necessary to sustain continued strong growth in the tourist sector or the economy generally.

Unless Aer Rianta can identify what airlines are going to put this capacity into the Regulated Airports, then clearly this traffic growth will not be realised. The only prospect of this growth being realised at the Regulated Airports rests with forcing Aer Rianta to provide low costs and efficient facilities that will encourage Ryanair and possibly other low fares airlines to replicate the low fares, high growth formula in the Ireland-European market that was originally delivered by Ryanair in the Ireland-UK market. Ryanair can and is willing to deliver this growth in new routes, traffic and tourism, but only on condition that a competitive cost base at the Irish airports emerges and efficient facilities are provided. Ryanair has offered to co-fund these facilities, or indeed fund them in their entirety. However, to date, this proposal has been rejected by Aer Rianta, with the result that this capacity and traffic has been lost to other faster growing airports in the UK and on the Continent.

Furthermore, Aer Rianta has failed to consult with users on the traffic forecast that forms the basis for the 20-year development plan. Aer Rianta acknowledges that the traffic forecast is the starting point for the capital plan and must be developed in a robust and systemic manner. However, when Aer Rianta recently presented its forecast, it emerged that the Users had not been consulted on their future traffic plans. This lack of consultation clearly calls into question the legitimacy of this forecast and therefore the legitimacy of Aer Rianta's development plans.

Efficiency, Effectiveness and Benchmarking

Aer Rianta's submission is completely devoid of any reference to any efforts to cut costs or any recognition of the serious inefficiencies at all of the Regulated Airports. This should be of concern to the Commission as Aer Rianta uses references to several "benchmarking" studies that show Aer Rianta to be one of the most efficient and low cost airports in Europe, which is completely contrary to reality. The Commission should examine what measures Aer Rianta undertook leading up to and following the loss of duty free to determine whether Aer Rianta is an efficient operator. The Commission should also examine cost over runs on Aer Rianta projects (e.g., the approximate £10 million overrun on the 6 bay extension).

Benchmarking the Regulated Airports to other monopoly (or quasi monopoly) European airports will not reflect the reality of a competitive environment, were one to exist here in Ireland. Ryanair recommends that the Commission should ignore benchmarking to other European monopoly airports, which have long been characterised by high, state monopoly protected charges and gross inefficiency. Also the Commission should seek to ensure that in a regulated environment, Aer Rianta is challenged to promote efficiency and develop effective facilities at the lowest possible cost (consistent only with the net book value of its assets) here at Dublin Airport, and more importantly with the promotion of traffic and new route growth at the Regulated Airports.

If one relates this to air transport, one can see that Aer Lingus no longer benchmarks its air fares against those of other flag carrier airlines around Europe. This is because Aer Lingus now has competition from Ryanair. Fares have been drastically reduced, traffic has increased, and the Irish airlines are too busy competing with each other to bother with benchmarking.

Aer Rianta's previous benchmarking studies of its charges are entirely irrelevant because they always benchmark its "published" charges. Ryanair has produced audited evidence of the fact that Aer Rianta's actual charges to Ryanair are the most expensive of all of the 50 airports we now fly to all over Europe. The rate of published charges is irrelevant, it is the rate of actual charges that is the key. Ireland as an island nation cannot have a low cost air access regime where we suffer from a high cost airport charging regime. The future of our tourism industry and our economy generally depend upon bringing about significant reductions in access costs and further reducing air fares on existing and new routes, particularly to the UK and Continental Europe, over the coming five years. Indeed we believe that the very success of the Commission itself will depend upon delivering this aggressive traffic and new route growth.

Quality of Service

It is wholly inaccurate of Aer Rianta to suggest that service quality at airports is often "heavily dependent on capital investment". It is not. Service quality, in so far as it applies to airport facilities, depends upon providing efficient, user-friendly facilities, which provide ample room for passengers and ease of access to the runway and terminal building for customer airlines and passengers. To say that customer service has been a core value of Aer Rianta in recent years is simply untrue. All of the submissions to the Commission by Aer Rianta's customers speak volumes about Aer Rianta's attitude to "customer service".

Service quality can be provided at minimum cost, or modest capital investment. It is more usual at airports to find that the more complex the design and the greater the capex, the lower the service quality. The 6 bay terminal extension and Pier C are excellent examples where high levels of capex have resulted in reduced service levels (and higher charges to airlines and passengers).

Furthermore, Aer Rianta argues that no bilateral agreement should be permitted that allows for service levels which are below the generic standard at a lower price than standard charges as this would place a disproportionate burden of cost on the majority of airlines who wish to operate to the generic standard. This is classic one-size-fits-all. Aer Rianta's contention is that even if airlines accept lower standards they should be made to pay the same as those who require different/higher or "the generic standard". Such an approach, if accepted, would lead to more profligate expenditure on capital projects that do not meet the requirements of users. The service levels (airbridges and business lounges, for example) required by operators differ considerably. A charging regime which reflects this difference must be included in the regulatory framework in order to end the discrimination that is currently taking place at the Regulated Airports, i.e., Users being charged the same price for very different services and facilities.

We note that the Competition Authority in its submission recognised the importance of meeting the needs of low fares airlines who demand a much lower level of service than may be acceptable to high fare traditional operators. The Authority noted that this has implications both for pricing in terms of low fares airlines being able to opt out of certain services they do not require, and for investment as low fares carriers may require a much lower specification in terms of terminal and other facilities. Aer Rianta's one-size-fits-all approach is in breach of competition law as it is discriminatory.

Finally, we note Aer Rianta's reference to the International Air Traveller's Survey (IATS) results for passenger service for 1998, which is completely out of date. A similar survey from the year 2000, when Aer Rianta and the shambles at Dublin Airport featured in countless complaint letters and media reports on a daily basis, would be more relevant. However, even these out of date results confirm that the two areas in which the average ratings are exceeded by the greatest amount are in fact service delivery areas that are solely the responsibility of the Users, not the airport (i.e., service at check-in and speed of baggage). In contrast the three categories, which are the responsibility of the airport, have lower scores (in two cases below the average score).

It is therefore clear that Aer Rianta is currently providing Users with a wholly inadequate level of service and facilities. The Commission must ensure that its regulatory regime forces Aer Rianta to provide the services and facilities demanded by its Users and that the charges reflect those differing requirements.

Development of a New Structure of Airport Charges

Aer Rianta has not consulted with its customers on the proposed charging structure, it has simply doubled the charges to the users over the last two years. The only reason why Aer Rianta's earnings have reduced significantly with the cessation of intra-EU duty fee is that Aer Rianta has done nothing in the preceding eight years to reduce its operating costs, increase efficiencies or develop a programme of efficient capital expenditure. To suggest that there have been no material objections from the airline to Aer Rianta's proposal of airport charges is completely untrue.

Passenger Charges

Passenger charges should actually reflect the net book value of the facilities being provided.

Furthermore, as noted in our submission, there is no justification for peak pricing, since there is no congestion on the runway. With the existence of the second usable runway at Dublin Airport, we estimate that there is a minimum of 60 movements per hour possible at Dublin Airport (if both existing runways were to be used to their maximum efficiencies), whereas presently, even at its busiest period, Dublin Airport barely achieves 40. Aer Rianta's attempt to introduce peak pricing is simply a further attempt to impose monopoly pricing and to penalise the two base airlines, Ryanair and Aer Lingus, who operate schedules throughout the day.

Any runway charge should apply only to the runways and taxiway provision and maintenance. It should not include a charge for the fire service, which is inefficient, expensive, and also provides the fire service for the entire terminal building and airport complex. Clearly the costs of the fire service should be covered under the single till or at least allocated on a proportionate basis to the other services at Dublin Airport.

Other Charges

There should be no charge for apron use as there are minimal costs associated with its use. An airbridge charge, if one is to be introduced, should reflect the excessive capital cost of designing and constructing facilities capable of fitting airbridges. In this case, the airbridge charge, for example on Pier C, should reflect the £50 million cost expenditure in designing a four storey core building simply to accommodate airbridges, whereas the costs at the A Pier should be substantially reduced given that it is a simple two storey building which does not have airbridges, and whose passengers are happy to forego airbridges in return for significantly lower airfares.

The terminal charge should relate only to the recovery cost of the net book value of the terminal, excluding the recent six bay extension, which is not even used by the two principal airlines. This cost recovery should also be equally allocated over all of the other services provided within the terminal, including Aer Rianta's shopping activities, retailing, offices, etc. Any such terminal charges should also be levied equally for transit and transfer passengers connecting through the terminal as they also avail of these facilities. Aer Rianta's arbitrary figure of a 25% charge for transfer passengers is typical of their haphazard and non-objective approach to charging issues.

Finally, Aer Rianta argues that any increase in airport charges should simply be passed onto the consumer. This clearly illustrates their monopoly thinking and demonstrates how unaware they are of the competitive pressures of the real world. The purpose of the regulation of charges is ultimately to benefit the consumer through lower charges, not to give the airport operator an opportunity to simply increase its charges. This was also Aer Rianta's attitude when it introduced the fuel levy at Dublin Airport, i.e., the fuel suppliers would pass it on to the airlines (which they automatically do based on contractual provisions vis-à-vis each airlines, of which Aer Rianta was aware) and, presumably, the airlines would pass it on to their passengers.

Hidden Monopoly Charges

These should all be eliminated because they are unjustified, and have no basis in any cost. They exist only because of Aer Rianta's monopoly pricing power over its Users. These include (but are not limited to):

- - the fuel levy;
- licence fees on service providers;
- the "administration" fee recently imposed on Users.

Property Charges and Rights

The Commission should review all property transactions conducted by Aer Rianta over all lands and facilities at the Regulated Airports in recent years. In particular, the Commission should review the rate of return on these investments to determine whether Aer Rianta has treated certain Users more favourably than others. Ryanair is aware of a wide disparity and gross inequality in Aer Rianta's treatment of its Users in this respect.

Ryanair agrees with Aer Lingus's comment that the regulatory regime should ensure non-discriminatory treatment between Users (recognising that differentiated prices for different levels of service and facilities does not constitute discrimination). However, this non-discrimination must also extend to Aer Rianta's dealings on property and other issues.

Consultation With Users

We believe it is important that the Commission's attention is again drawn to references in the Aer Rianta submission that Aer Rianta has "consulted with its customers" on either facilities or the proposed charging structure, etc. It is quite evident from the submissions of Ryanair, Aer Lingus, other users, and minutes of the Airport Operators Committee that Aer Rianta has failed abysmally to consult with Users or to take any account of Users views over the past number of years at Dublin Airport. This situation continues despite the recent appointment of the Commission. Aer Rianta continues to confuse meetings with Users for consultation.

As noted in response to Question 39 of our submission and throughout Aer Lingus' submission, Aer Rianta has completely failed to effectively negotiate with its Users and hired PB Aviation Consultants to "consult" with the Users on the 20-year development plan for Dublin Airport. However, after the three sessions with this consulting firm, the Users are no more aware of Aer Rianta's plans for the development of the airport. There was much talk of how important Aer Rianta considers consulting with its Users but not much actual consulting. Indeed, in a separate meeting with the consultants, they revealed to us that their contract covered presenting the three meetings and writing a report for Aer Rianta. Aer Rianta can then presumably say that they have consulted their Users.

There is now a series of "workshops" on specific topics. However, at the first workshop on the issue of moving the fuelling facilities, no representative from Aer Rianta even attended. For the second workshop, on Terminal Development, Aer Rianta provided Users with a copy of its 20-year development plan, less than 24 hours before the meeting, despite the fact that they started working on the Plan in 1997 and it was completed in October 2000. However, Ryanair and presumably other Users, were at no stage consulted on this development plan (although there are specific references in the plan to the fact that Aer Lingus and the IAA were consulted). Now, Aer Rianta proposes to "consult" with its Users but has already stated that it wishes to proceed as quickly as possible with this process.

3. OTHER SUBMISSIONS

The common thread running through the majority of the other submissions received by the Commission is the widespread dissatisfaction of Users at the Regulated Airports and that the Commission must take a hard line approach towards Aer Rianta to ensure that Ireland gets back on track in terms of promoting growth on existing and new routes at the lowest possible costs.

Many submissions, including those of Aer Lingus, Serviceair and the IAIEC, have commented on the chronic lack of consultation between Aer Rianta and its Users and the resulting over-specified, overly costly facilities. The submissions have also recognised the need for competition to be introduced at the Regulated Airports.

4. CONCLUSIONS

Aer Rianta's proposals for regulation of its activities over the coming five years seek to significantly limit the ability of the Commission to regulate it. They also seek at every turn to prevent the emergence of a regulated regime that would reflect the reality of a competitive environment at the Regulated Airports. Furthermore, Aer Rianta is attempting to protect and embed the massive price increases which it has levied on both airline users and consumers at Dublin Airport and in its monopoly carparks over the past 18 months while there was a regulatory vacuum.

Ryanair recommends that all of these price increases over the past 18 months must be rolled back, and an aggressive regulatory price cap be imposed on Aer Rianta on this pre-1999 net book value cost base. The opportunities for Aer Rianta to promote efficiencies, and develop traffic are significant as Aer Rianta has built up significant "padding" in recent years and these inefficiencies must be targeted by the Commission. Unfortunately, Aer Rianta thinks and behaves like a monopoly and will therefore not achieve these goals in the absence of strict economic regulation.

The Commission for Aviation Regulation can make a lasting impression on Irish tourism and the cost of access to Ireland by imposing a very tight regulatory regime on the Regulated Airports for the coming five years. Ryanair believes that the Commission should lead the world by introducing an innovative regulatory regime that will radically reduce costs and increase efficiencies at the Regulated Airports. The Commission may rest assured that Ryanair and other airlines will respond proactively by launching new routes, and adding additional capacity to existing routes, thereby delivering dramatic traffic growth and a huge boost to Irish tourism.

Ryanair's Preliminary Comments On The Dublin Airport Master Plan Study

- We were not given a copy of this document until 11th April 2001, the evening before the "consultation" workshop on Terminal Development. The document is dated 1998. The report was updated in 1999 and 2000 and is therefore in three parts. However, it appears the plan dates back from 1997.

- The existence of such a report was unknown to Ryanair. Ryanair, the second largest carrier at the Airport (accounting for 29% of all traffic currently) was not consulted on the content or forecasts central to the proposals contained in the report. For example, on page 5, the report confirms that "these assumptions (passenger growth) are based on discussions with Aer Lingus and published details of aircraft purchases and fleet development plans for other major customers". In addition, Scott Wilson (the authors of the report), confirm that "we met with senior business development and planning staff in Aer Lingus and the Irish Aviation Authority". Nobody from Scott Wilson met with Ryanair. A recurring theme in the report is the inclusion of the low cost Pier D. This formed part of the development plan up until October 2000, when it was inexplicably removed. There is no valid justification of why Pier D was removed from the Plan.

A number of interesting points emerge from the report(s).

- Ryanair were not consulted on the report - yet some of the options include the removal of the Ryanair hangar (page 10 table 6 1998 draft)

- Pier D was agreed and formed part of the development plan for the airport back as far as 1992 (section 2.9.1 page 6 1999 draft) until October 2000 - in section 5.3.5 (page 11 1998 draft) they confirm for example that "the stands that will be available following the construction of Pier D and other committed developments are tabulated below" - a chart (table 4 page 11 1998 draft) shows an additional 12 stands. In addition, and perhaps most significantly, the section titled Comparison of Spatial Standards (page 13 1998 draft) confirms (using Aer Rianta own figures) that Pier D would be the most efficient of the four piers with a throughput of 10.1 million passengers per annum.

- Aer Rianta confirmed (page 9 1998 draft) "Dublin Airport has a sound financial base from which development projects can be funded."

- Aer Rianta Master Plan (page 10 1999 draft) confirms that "The current master plan provides for the development of a runway parallel to the existing main runway (10 - 28) at an offset of 1690m" - this was without any consultation or input from Ryanair.

- The concept of public private partnership was discussed and evaluated (page 6 1998 draft). However, at the time (1998) Ryanair were refused permission to fund/or partly fund the development of Pier D - again we were not aware of this document at the time.

- In section 2.9 (page 6 1998 draft) the report confirms that passenger growth (at the end of the 1980s and beginning of the 1990s) "began a sustained period of rapid growth (apart from the period of the Gulf War)" They confirm the three reasons for such growth as being - deregulation of the market - "the entry of low cost carriers into the market which made travel more affordable" - "active management by Aer Rianta to facilitate growth." The Aer Rianta involvement was to provide a range of discounts to carriers who generated growth and were willing to use lower spec facilities (e.g., Pier A) this regime resulted in the growth which they detail.

- In the most up to date version of the report (October 2000) we see a note on the postponement of the Pier D project the reasoning is given in section 2.3.8 it states that "in the Master Plan Study it was assumed that Pier D would be constructed". "This Pier provides increased numbers of contact stands and airside capacity, but does not add to central processing capacity, which is the limiting factor in the capacity of the terminal building " - this of course is no longer the case. The six bay extension eliminates any capacity issues in the terminal. The report makes exactly this point in section 2.4.1 (page 6, 2000 draft) when it confirms that the construction of the 6 bay "reinforces the recommendation to set in hand development programmes for projects (including Terminal Expansion) in the light of lead times required."

- This schizophrenic approach is further evidenced when in section 6.1.4 (page 15 2000 draft) Aer Rianta confirms (under the Section "Conclusions of the Master Plan ") that development of the terminal should continue on the current site and it recognises the need to "provide those facilities by extending the existing terminal building". On the same page (Section 6.1.2) it confirms the decision to postpone the development of Pier D. This is totally illogical.

[1] Reynolds-Feighan, Assessment of the Performance and Prospects for Ireland's Regional Airports, April 1993).
[2] March 2001, para. 6.4.
[3] European Transport News Review, 5 April 2001.