

1<sup>st</sup> August 2025

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**Ref: IAA Consultation on Revised Draft RP4 Performance Plan (2025-29) and 2024 Actual Costs**

Dear Adrian,

Thank you for the opportunity to respond to the Irish Aviation Authority's consultation on the revised draft RP4 Performance Plan and 2024 actual costs.

On behalf of our Group airlines (Aer Lingus, British Airways, Iberia, LEVEL and Vueling), IAG sets out our response to the consultation below.

We support and endorse Aer Lingus' own separate response to this consultation.

**RP4 Performance Plan**

IAG acknowledges the IAA's substantial efforts in constructing an initial RP4 Performance Plan which from the outset incorporated essential challenges to Air Nav Ireland's proposal within the areas of staff requirement, other operating costs, its capital programme and cost of capital.

We also recognise the IAA's constructive response to the PRB's feedback on last year's submission and appreciate the clarity and extensive work behind the revised proposal. This revision appears to meaningfully attempt to develop a plan in line with IAA's objectives of setting fair and reasonable prices and incentivising the service provider appropriately to deliver value.

*Initial Plan*

We believed the original plan was overly generous and inconsistent with the Union-wide unit cost (UC) target of - 1.2% per annum. We questioned whether the emphasis on capacity to the detriment of cost efficiency was reasonable, given the good capacity performance and the failure to meet the cost efficiency targets.

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We were encouraged that the PRB appeared to agree with our concerns and we are grateful to the PRB for acting in the interests of airspace users and passengers by requesting a revised submission that better aligns with the Union wide requirements and targets.

### *Proposed scenarios*

In the light of these concerns and the feedback of PRB, we were surprised not to see any scenarios proposed that met the cost efficiency targets. It would have been useful to assess such a scenario to fully understand the make-up of a compliant plan and the impact this would have had on proposed capacity measures and performance.

Of the scenarios proposed, IAG supports Scenario 1.3 as the most appropriate and balanced option. In our view, Scenario 1.3 offers the best path toward delivering the required improvements in capacity, accountability, and performance delivery whilst to some extent mitigating the continued failure to hit cost efficiency targets through various adjustments to cost and baseline plus a more realistic approach to AirNav's investment plan.

Scenario 1.3 provides a more realistic basis for a revised RP4 plan that reflects traffic trends, enhances value for money for users, and ensures that ANS providers are incentivised to operate at efficient cost levels. We agree with the IAA's rationale for not updating the traffic forecasts as set out in the proposal.

While it is preferable to use the most recent forecast there are specific factors that make the use of the STATFOR February 2025 traffic forecast inappropriate. This forecast is artificially understated due to the imposition of a seat cap at Dublin Airport in Winter 2024/25, since stayed and no longer applied. It is also understated due to a temporary shift in transatlantic flows in 2024, which has since reverted. The forecast does not reflect the reality of 2025 realised demand.

Using this forecast which artificially limits Dublin Airport capacity would require IAA to comprehensively reassess the effect of this constraint on all the other building blocks and require completely revised business plans from the ANS providers.

We understand from the IAA that there is a reasonable case for a further 10% reduction in the allowance for AirNav's new RP4 investments, on top of the initial proposal's 20% blanket reduction. Assuming that our understanding is correct and that this reflects a reasonable expectation of AirNav's capital programme delivery, we support this further reduction.

On the other hand, we are disappointed that the cost efficiency targets remain not met and encourage the IAA and AirNav to take a cost-focused approach across the remainder of RP4 to identify efficiencies and opportunities to achieve a compliant cost trajectory. This should be supported by derived efficiencies from planned investments.

### *Capital investment programme*

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IAG is concerned by the top-down approach used to revise the capital investment plan and recommends a more structured, bottom-up prioritisation process.

We recommend the following:

- Apply objective criteria for project selection (e.g. legal/safety obligations, ROI, passenger benefits)
- Conduct post-investment assessments to verify promised benefits
- Exclude historically underperforming or delayed projects unless supported by recovery plans

We believe this approach would enhance value for money and the credibility of the overall plan.

### *Incentive schemes*

IAG welcomes the IAA's proposal to introduce two new capacity-based incentive schemes, recognising their potential value in a monopoly environment. However, we suggest several refinements:

- The focus is currently on inputs (e.g., hiring targets) rather than outcomes or service-level performance. A shift towards outcome-based measures would reduce the risk of perverse or inefficient results.
- The link between staffing, capacity, and traffic forecasts needs further clarification and validation.
- We urge the IAA to clarify that these schemes are temporary, reflect the failure of ANS providers to plan and recruit adequately, and should not be used to justify changes to the WACC or the risk profile of the providers.

### *2024 actual costs*

While headline costs appear aligned with the Performance Plan after inflation adjustments, this masks deeper issues. Labour and operating costs are significantly above determined levels and expected efficiencies from investments have not materialised.

We remain concerned that cost discipline is lacking and that inflation indexing is obscuring inefficiencies. The RP4 revision is a key opportunity to reset the cost base with stronger efficiency focus, clearer incentives and greater accountability.

### **Next steps**

IAG, as always, welcomes further opportunities to discuss any of the above or any other areas relating to the RP4 process.

Yours sincerely,

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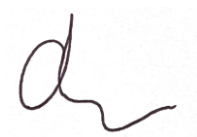
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