RYANAIR
THE LOW FARES AIRLINE

Corporate Head Office
Dublin Airport
County Dublin
Ireland
Direct Telephone: +353 1 812 1226
Direct Fax: + 353 1 844 4409
Telex: 33588 FROP EI
Site: DUBHGFR
Reservations: +353 1 6097800
Website: www.ryanair.com

Department Fax Numbers:

Finance:	01 8121330
Sales & Marketing:	01 8121331
Flight Operations:	01 8444404
Engineering:	01 8121338
Reservations:	01 6097901

18th December 2008

Cathal Guiomard
Commissioner for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin 2
Fax: 661 1269

Dear Cathal,

Response to Issues Paper CP6/2008

Ryanair is a member of the Dublin Airport Consultative Committee (DACC) and has contributed to the response being prepared by the DACC. We understand that the DACC has requested an extension for filing its response due to announcements made by DAA just this morning, including a possible delay in the completion of the second runway. We echo DACC's concerns that, despite repeated requests to be consulted on cost reduction, the DAA did not even brief users on this announcement. Ryanair reserves the right to submit additional comments once details are provided by DAA.

Ryanair would like to highlight the following points below:

1. <u>Failures in Regulation</u>

The regulated monopoly model followed by the CAR/DAA has been proven by the UK Competition Commission to have failed airport users and consumers. This model is being replaced in the UK by the break up of the monopoly and the introduction of competition. Ryanair likewise urgently calls for a similar break up of the DAA monopoly by separating Cork and Shannon, and by putting the second terminal in Dublin up for sale to promote real competition.

In the absence of effective competition, the role of the regulator is to ensure as far as possible outcomes consistent with how an airport operating in a competitive market would behave. As presently applied by the CAR, regulation of airport charges has tended to reward inefficiency by the DAA monopoly, under a flawed RAB based approach, by focussing more on the financial viability of DAA than on mimicking competitive outcomes.

In fact, the Issues Paper only mentions the criteria of *"enabling the Dublin Airport Authority to operate and development in a sustainable and financially viable manner"*. Which demonstrates a clear bias by the regulator towards the regulated monopoly. Clearly the more important criteria in Section 33 of the Act are those that focus on what an airport operating in a competitive market would do, namely:

"facilitate the efficient and economic development and operation of Dublin Airport which meet the requirements of current and prospective users of Dublin Airport;

protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport;"

If the CAR was properly applying these two criteria, the objective of a *"sustainable and financially viable"* airport would automatically follow. As it is, airline users are being forced to pay for facilities that they don't require and don't want – nor can they afford to pay for them, which is why traffic is in decline.

The failures of the CAR are all the more objectionable in the context of the ballooning costs of the office of the CAR over the last 5 years and reducing productivity in terms of securing outcomes which protect the interests of airlines and passengers. These excessive costs are likewise passed on to airlines and consumers, thus exacerbating the problems at Dublin Airport.

CAR – Revenues and Costs							
	'02	*'03*	*'04*	*'05*	*'06*	*'07*	*'08 (est.)*
Income	3,951	5,636	3,550	1,353	3,127		
Costs							
Salaries	778	1,215	1,313	1,160	1,423	1,820	1,935
Consultants	129	428	465	949	539	921	1,093
Slot Co-Or	165	202	190	227	329	335	298
Advtsg. + PR	62	24	77	85	66	73	182
Other	696	675	678	696	814	748	
Total Costs	1,830	2,544	2,723	3,117	3,171	3,897	4,355
Legal Fees	2,059	1,413	164	626	771	1,219	-
Costs Incl Legal	3,889	3,957	2,887	3,743	3,942	5,116	4,355

2. Service Quality

Although there is clearly an urgent need to address the abysmal levels of service at Dublin Airport, Ryanair is concerned that simply replicating the service quality measures as adopted by the CAA in relation to Heathrow and Gatwick Airports will be ineffective. Ryanair is of the view that the existing penalty systems have not delivered any meaningful improvement in service quality to airlines or passengers at those airports.

Ryanair considers that the focus should be on objective measures of performance, such as availability of critical equipment such as baggage systems or activities such as security, which can result in serious breakdowns in service and flight delays, rather than subjective measures based on small samples of passengers. For example, Ryanair has had repeated problems with Gatepost 4 and DAA has consistently failed to address this issue. This has led to several delays of Ryanair flights, which would not necessarily show up on DAA's biased passenger surveys. Timeliness also means that there needs to be a direct link between a service failure and a rebate to airlines for the period concerned. Annual service quality measures as suggested by the CAR, on the basis of ease of data collection, would be entirely ineffectual.

3. Passenger Forecasts

Passenger traffic is declining at Dublin Airport and, given the recession, increased costs at the Airport compounded by the introduction of the Government's £10 visitor tax on 1 April next year, further declines in passenger numbers are guaranteed for next year. Airlines are facing unprecedented financial difficulties and many are struggling to survive.

Yet in the face of these extreme economic conditions, the DAA continues to try to game the regulatory system and ignore users' requirements. Despite repeated requests by the DACC for DAA to produce a plan for reducing costs and airport charges in the current unprecedented economic crisis, the DAA has repeatedly refused to do so and are instead increasing costs and charges further, which will seriously damage traffic growth at the airport.

In this context, DAA's current passenger forecasts are wildly optimistic. Aer Lingus has now confirmed capacity reductions on short-haul and long-haul routes this winter. Ryanair has also confirmed capacity reductions this winter and has informed DAA that due to cost increases, Ryanair will not be growing at Dublin Airport. However, the DAA has ignored these comments and forecast substantial growth by Ryanair in order to inflate their overall forecasts. Traffic at Dublin Airport is already in decline and this decline will accelerate when the travel tax is introduced by the Government in April 2009. The key driver for passenger forecasts in the short to medium term are airline/route withdrawals, capacity reductions, recession, GDP decline and the Government's travel tax. It should be noted that BAA's main UK airports showed a decline in traffic of 9% in November 2008, through a combination of high travel taxes and economic recession which will be repeated in DAA airports next year.

4. Operational Costs

DAA is an inefficient airport operator, with high costs and poor quality of service. The costs of operating Dublin Airport should be benchmarked against the best performing airports operating in competitive markets, not against monopoly hub airports operating within regulated regimes. Ryanair would urge the CAR to focus on critical process such as security as well as on head office overheads.

A major concern is the potential effect of the premature opening of T2 on opex. It is now abundantly clear that the DAA has built T2 prematurely by approximately 4 years given that the current runway capacity is incapable of accommodating any additional terminal capcity. Moreover, with DAA's announcement this morning that they are planning to delay the opening of T2 further, this will mean that users will be forced to pay the massive capital and opex costs for a facility that they are unable to use to increase passenger numbers for an even longer period of time. We are now calling on the CAR to deny any recovery on T2 until the second runway is operational as the DAA were aware that the second runway would be necessary to accommodate any further passenger growth and T2 should not have been built so far in advance of the second runway.

Commercial Revenues

Ryanair remains highly concerned that DAA has spent substantial sums of capex on T1X for no incremental gain in either capacity or commercial income. Following the opening of Pier D and the demolition of Pier C, the vast majority of passengers using the Airport simply do not pass the retail outlets at all. Clearly this is a substantial contributory factor to the poor retail income performance reported by DAA currently. Rather than generating genuine incremental commercial income, the new shops and cafes in T1X will simply replace income lost as a consequence of DAA's abysmal planning of Dublin Airport.

The CAR has a duty to protect users from DAA's failures. Users have been promised that T1X will be revenue neutral. This does not mean that revenues earned in T1X should simply be taken to balance the annualised capital and operating costs but that the revenues lost as a result of DAA directing passengers away from existing retail outlets must first be returned to the single till.

Moreover, given that that CAR has accepted this treatment of T1X, a similar approach should be taken with respect to the 3 additional, unnecessary floors that the DAA have added to T2 and the massive amount of retail space on the ground floor. It is this wasted space that drives the cost of T2 and the DAA should be put at risk for the claimed commercial revenues from these facilities.

Capital Costs

The track record of the CAR allowing capital costs into the RAB, particularly in CP6/2007, is testament to the way in which it has allowed DAA to develop inefficiently. The approach of the CAR appears to have been to analyse each development in isolation and make marginal adjustments to costs allowed into the RAB to reflect efficiencies in the construction of each building in isolation. What the CAR has not done is assess the cost effective development of Dublin Airport to meet users' needs as a whole. Had the CAR done its job properly, DAA would not have been allowed to:

- Demolish Pier C only 9 years after it opened at a cost of €150 million;
- Build Pier D to handle long haul traffic, simply to replace the long haul capacity being lost in Pier C prior to T2 opening;
- Build the link bridge to Pier D at an excessive cost and of an unnecessary length resulting in excessive walking distances for passengers;
- Build T1X at a cost of €55 million, not for the primary purpose of increasing capacity but to reinstate lost retail income with no net gain to users;
- Build T2 of a size which can never be used as a consequence of binding limits on the passenger throughput allowed in the Eastern campus and which cannot be used in any event until additional runway capacity is provided.

The CAR has a duty to address these excessive costs in resetting the opening RAB for the next regulatory period, as well as expressly delaying the time when any costs related to T2 can enter the RAB, i.e., until such time as the second runway is operational.

Furthermore, the second building in the new T2 which is allegedly for *"deep check-in queuing space"* is entirely redundant when the vast majority of airlines are moving to web and kiosk check-in. It simply cannot be right for users to be forced to pay for facilities for which there is no business or commercial justification and which were built for the sole purpose of padding the RAB and inflating airport charges.

Moreover, the CAR should have introduced differentiated pricing already at the last review given that it is now clear that the size and cost of T2 were directly driven by Aer Lingus' operational requirements. Aer Lingus should therefore have to pay for the excessive cost of this facility and other users should not be forced to do so. Otherwise the CAR is facilitating a serious distortion of competition between the airlines. DAA have made it clear that they will not introduce differential pricing, and have actually guaranteed Aer Lingus that they will not pay anything additional for the use of T2. It is therefore incumbent on the CAR as regulator to address this abuse of competition.

As indicated in the table below, there are plenty of examples across Europe where airports are building efficient terminal buildings to meet the needs of users. To put this into context, what was needed at Dublin was a second terminal to handle no more than 10 mppa to provide a balance between the capacity of the existing terminal and binding capacity limits on the Eastern Campus. Anything above this is a breach of the Fingal County Council LAP planning limit. The benchmark airports for the nature and cost of terminal required should not have been the major hub airports but those large regional airports building cost effective facilities to meet users' needs. The CAR itself collected evidence on such facilities from Jacobs Consultancy but never used that evidence to benchmark the scale and cost of facilities being constructed by DAA. For example, Frankfurt Hahn is planning a new terminal of capacity 15 mppa for just €60 million, some one tenth of the T2 cost.

Airport	Capacity	Cost €	Cost € per M Pax
Cork	3M	180M	60.0M
Dublin T2	15M	840M	56.0M
Bremen	3M	10M	3.3M
Marseille MP2	3M	16M	5.3M
Brussels CRL	5M	53M	10.6M
Liverpool	7M	75M	10.1M
Bristol	9M	87M	9.7M
Frankfurt HHN T2	15M	60M	4.0M
Ryanair T2	20M	200M	10.0M

Ryanair also opposes the automatic indexation of the RAB, which constitutes a built-in, unjustified price increase every year for the DAA monopoly. In all other businesses, capital is depreciated on an annual basis, whereas the RAB approach allows for annual appreciation regardless of whether value is actually being created.

Finally, Ryanair considers that the cost of capital for DAA should reflect the zero or almost zero risk of capital city airport facilities in Europe, and declining interest rates in recent years. The cost of capital for the DAA should reflect current 10 or 12 year interest rates.

Other Issues

The following are issues that are not dealt with in the CAR's consultation paper but are relevant to the review of the DAA's charges:

- DAA has generated over €800m from the sale of non-core assets such as Birmingham, Dusseldorf, Hamburg and the Great Southern Hotels Group and yet none of this cash (which was generated from assets funded by Dublin Airport users) has been returned to Dublin Airport users. This cash should be used to finance necessary facilities at Dublin Airport, which would lead to a reduction in airport charges, which would in turn lead to passenger growth, instead of the inevitable continued decline due to uncompetitive costs.

- Cargo is cross-subsidised by passenger airlines. Cargo should pay the full cost of cargo facilities including a fair share of runway and ramp costs.

- Dublin Airport City should be completely excluded from all RAB and should be abandoned. It is inevitable that overhead and management costs will be hidden in the DAA's opex and it is equally clear that this speculative property development is entirely inappropriate for a regulated government monopoly. DACC and Ryanair have called on DAA to confirm that costs are being ringfenced but the DAA has failed to respond to these concerns.

Ryanair would welcome the opportunity to discuss these matters further with the CAR during the process of the review and prior to the Draft Determination being published.

Yours sincerely,

Jim Callaghan
Director of Legal & Regulatory Affairs