

GREAT SOUTHERN HOTEL  
DUBLIN AIRPORT

PRESENTATIONS WERE PUT BEFORE THE COMMISSION FOR AVIATION  
REGULATION ON 17TH JULY 2001 BY:

- (1) AER RIANTA
- (2) CORK/SOUTH WEST CONSORTIUM
- (3) ANTOIN DALTÚN
- (4) INTERNATIONAL EXPRESS CARRIERS
- (5) IMPACT
- (6) IRISH HOTELS FEDERATION

MEMBERS OF COMMISSION FOR AVIATION REGULATION

BILL PRASFIKA  
CATHAL GUIOMARD  
JARLETH BURKE  
ROSALINE BYRNE  
ANNE MOLONEY  
OLIVER HOGAN

I hereby certify the  
following to be a true  
and accurate transcript  
of my shorthand notes of  
the presentations before  
above-named meeting.

---

COPYRIGHT: Transcripts are the work of Gwen Malone  
Stenography Services and they must not be photocopied or  
reproduced in any manner or supplied or loaned by an  
appellant to a respondent or to any other party without  
written permission of Gwen Malone Stenography Services

THE MEETING COMMENCED AS FOLLOWS:

MR. PRASFIKA: I want to thank  
everyone for coming. I  
just have a very brief statement before we can come  
down to the first representations. The statutory  
consultation period which will lead to our final  
determination on the setting of airport charges has



Sweeney, Deputy Chief Executive of Aer Rianta.

MR. GREY: Ray Grey, Director of Finance, Aer Rianta.

MR. HAUGHEY: Tom Haughey, Director of Market Development &

Strategy, Aer Rianta.

MS. RYAN: Miriam Ryan, Senior Strategists, Aer Rianta.

MS. SWEENEY: I would like to stand up, is that okay Commissioner?

MR. PRASFIKA: Yes, if you just speak so the stenographers can hear

you.

MS. SWEENEY: Okay. So good morning to everyone, to the Commission. Aer Rianta welcomes this opportunity to present to you in relation to the determination of maximum airport charges. The Commission has provided us with a very detailed document in CP6 on its initial views on the proposal for determination of maximum charges, and Aer Rianta also welcomes this consultation process today and would also plan to make a very detailed written submission to the Commission in relation to the draft determination of

charges as well as part of that consultation period, by 26th July the due date.

First of all, what I want to cover today is really Aer Rianta's initial views on the significant factors that impact on the determination of airport charges based on our initial review of the draft determination, and maybe to first of all set a context in which Aer Rianta operates.

Aer Rianta has a statutory duty to ensure the proper development and operation of the airports and provide the necessary facilities and investment in infrastructure and services to provide for current or prospective needs of all users of the airport services out into the future in that context. And that includes buildings, infrastructure, services, requirements and all the various operating needs of the airport. That is actually set out in particular in the 1998 Act in Section 16, a requirement of the company to provide those facilities.

The company also exists in a highly regulated environment at the moment. In the context of not just in relation to this particular matter on regulation of its revenue base and airport charges, but also it exists in a very highly regulated environment in the context of EU directives and ground handling labour laws. The various air

navigation transport acts which put requirements on the airports in terms of the whole operation and

safety standards and security also has to comply and tie in with the various other regulatory bodies which exist at the airport in terms of customs, emigration and has to meet their particular requirements as well in terms of the operation of the Airports. It also has to comply with the Planning Acts, requires full planning permission for all its airport developments including the Subsidiary Act compliances for environmental impact assessment studies and all the environmental requirements, and also moving into a very significant area of Health & Safety as well.

Also since 1st January 1999, the three airports Dublin, Shannon and Cork airports have been licensed by The Irish Aviation Authority. They carry out annual licensing audits and use independent experts to do that, and all the time we have to make sure we meet the relevant licensing authority requirements, and make the necessary investments in infrastructure facilities to actually meet those requirements.

At the moment the Airports is operated on a twenty-four hour, seven-day-a-week basis, all three airports, and have no restrictions in operations. It is very important for the long term future growth of the airports, and also the regions in which they

are located that that particular profile of the airport is actually maintained, and that strategically they are managed in that context going forward.

We also in the international obligations have to comply with ICAO requirements in relation to airfield developments and safety, and also ECAC aeronautical security and various FAA requirements, depending on the nature of the operators and carriers operating in and out of the airports.

So that sets a context in which Aer Rianta actually sets its capital investment programmes and tries to provide the facilities and services necessary to operate the airports to meet the future growth.

In terms of then the background, Dublin, Shannon and Cork airports have seen very significant traffic growth over the last number of years, and at the moment that would also be high growth in the European context of airports as well. Dublin airport has doubled in size over the last seven years. Shannon airport and Cork airport have added each a million passengers each in the last seven years. So Dublin airport now would have a passenger throughput in 2000 of 13.8 million passengers and growing again this year. Shannon would be at 2.5 million passengers and Cork at 1.8, so there is a

quite substantial traffic growth and in a high growth business. There is a need for significant investment in facilities to deal with what would be considered catch-up, there is no doubt that the airports, particularly Dublin and Cork airports, requires significant investments to deal with huge capacity constraints in those airports. We are currently in a catch-up phase of doing that with our capital development programme. There is also a need to provide facilities going forward to meet the forecast future growth and demand. It is always very difficult, as anyone knows, to anticipate the future, but you have to make the best attempt at that and try and make sure that we provide the capacity in advance of the growth, and that we don't fall behind like we did in the past.

We also have to facilitate the various safety and regulatory requirements, not just set on Aer Rianta but also by other relevant bodies who operate out of the Airports, and where it is necessary where you are dealing with international traffic passing through.

There is also in the current environment increase in customer demands for facilities and services and also from the various passengers, an increase in demand for increase of service levels, and that is very much in the public debate and we deal with it

at the moment as well, this increasing pressure for increase service levels facilities.

At the moment we would see the that revenues from aeronautical activities are not adequate really to fund the operation and necessary development of the three airports, and we welcome the fact that there is an independent regulator now determining airport charges on an economic basis for the airports. For example in 2000 half the profits of Aer Rianta now come from non-airport related activities, business from overseas and business from the hotels.

Just moving then to the draft determination Commission, our understanding of the approach to regulation that you are adopting in the draft determination is that it is very much grounded in the maximising in the economic welfare. That the framework is very much based on building blocks approach, that there are key component parts which will impact on the determination of charges. That the maximum airport charges will be determined on the basis of the price cap approach which will be applied on the basis of an average revenue yield per workload unit. That it would be set on an individual airport basis, and that you are, in the

draft determination, adopting a single till approach, i.e. that all the revenues of the Airport Authority earned at Dublin, Shannon and Cork

airports will be taken into account in determining airport charges. That would be understanding of your approach to the draft determination as set out at CP6.

What I want to cover today, Commission, in this consultation phase is what we see as some of the significant factors actually impacting on the determination of airport charges, and really key elements to that building block's approach.

The first one is the regulated asset base. We believe both the valuation and the composition has a significant impact in the determination of airport charges as you rightly set out in your paper as well. It has significant impact in the context of being able to actually contain and even replace the existing capacity facilities at the three airports, and also to ensure the maintenance of shareholder value, and also facilities as well going forward. And, therefore, we believe it is very important that the exercise on asset valuation that that is correct, as any undervaluation in context of the existing assets of the company could have a significant impact in terms of the future replacement and the future funding for the replacements of those assets.

Your current draft determination is based on using

an historical cost NBV providing the existing asset base of the company which is regulated, we don't believe that that is appropriate.

You equally in the draft determination set out that the replacement cost or the index historical cost with some reflection of technological change as well are more economically superior methods of valuation. And also in the context of the bottom-up approach in looking at the composition of the regulated asset base, you suggest that it should be considered in the context of what would it require to produce equivalent efficient facilities and capacity at the airport. Taking that approach and that view, then in our view there is no way that depreciated historical cost of the assets could in anyway be able to provide the existing facilities and replace the existing facilities at the three airports.

I think one of your concerns in the draft determination was that the information may not be available to try and verify in relation to doing the replacement cost evaluation or some indexation of

the historical value basis. We believe that that information is available, in relation to the replacement cost Aer Rianta itself had a very detailed exercise carried out which has been provided to the Commission, on the valuation of the assets on a replacement cost basis for the existing

three airports by international experts Arthur Anderson. And equally there will be published data available in relation to indices which could be used to index up the historical cost basis and those would also be used by other regulatory environments and regimes.

So we think it is important that that valuation basis is reviewed and put on most economically efficient basis. It is also important that the regulated asset base composition is also consistent with the composition of the regulatory till that is adopted by the regulator, and that there is consistency between the two elements.

The next significant building block we believe in trying to determine which impacts on airport charges and in determining maximum airport charges, would be the capital investment plans for the company. Historically the investment by Aer Rianta in Dublin, Shannon, Cork airports has been low in comparison with our peer airports or even the benchmark airports set out by the Commission in its draft determination. We believe that significant investments are required in each of the three airports to provide -- to actually even to replace and maintain existing capacity to add new capacities and facilities to accommodate forecast traffic growth. And Aer Rianta's investment plans which

were sent to the Commission are really founded on what we believe are the necessary investment required provided facilities, seek to requirements and commercial operations in line with the traffic forecast. And and the traffic forecasts of Aer Rianta are based on main drivers would be GDP growth in the country, and based really on the mix of aircraft, the type of aircraft going forward and really the market conditions. And it is very much based on, what we believe, is already a very much tried and tested in terms of doing that.

We believe that our investment plans which are based on our best view of what is required. The company has a statutory remit to make sure it provides what the company considers are the necessary facilities to deal with passengers and cargo and our growth through the airport. We believe it delivers the appropriate increase and capacity at all the airports which meets the user needs and also in line

with the Commission's own view of delivering facilities to IATA standard B and in accordance with ICAO regulations. Our approach to the investment plans will be to deliver the balanced investment across all elements of the system, the runway, the airfield, the terminals, the roads, points of access and egress, car parks and all the necessary services to support that, and also to meet all the safety and regulatory and our capital investment programme

would be underpinned really in the context of the strategic long term development of the airport, not just for the existing users but in the context of prospective users as well.

It is necessary for airport authorities to take a long term view and a strategic view in terms of what is needed, and it is underpinned by master planning and consultation with the various existing users and also the local authorities and various other interested parties, and also to tie in and link up with the various other infrastructure works being done in the periphery of the airport in terms of access and egress by the various public authorities and bodies.

So the Commission's draft determination sets out the Commission's view of the necessary capital expenditure required for the three airports and set out in the recoverable CAPEX program which is significantly different to Aer Rianta's investment plans, significantly less than Aer Rianta's proposed investment plans, and the Commission would be suggesting on average an investment of approximately €2.79 per passenger on average over ten years across three airports. We would suggest that that is actually very significantly below our peer airports in terms of benchmarking. Even historically -- the review of the three airports on behalf of the

Minister for Finance and Minister for Public Enterprise, they very clearly articulated that historically Aer Rianta's investment in the airports has been well below its peer group of airports, and even taking its future investment plans in the past it would still only meet the average of that investment, and I would suggest to the Commission that its average investment level of €2.79 per passenger would be too low in the context of what is needed to provide the necessary facilities to fund the growth.

In order to facilitate Aer Rianta in terms of the consultation process with the Commission, we would like to understand a bit more from the Commission in the context of what traffic forecast is used in which to underpin its capital replacement CAPEX

projections? What specific projects or elements from Aer Rianta's investment programme do you believe are not necessary for that investment? And also, are the numbers you are using inflated numbers going forward, because that is a significant factor, particularly in the Irish context where building inflation is running significantly ahead of CPI and has quite a significant additional cost in that context.

The third key building block and significant factor impinging on the airport charges, we believe is the

operating costs. We would agree with the Commission that it is important that the airport charges should cover all the necessary operating costs and capital operating costs of the business. The nature of airports are that, and in particular airport even like say Aer Rianta's three airports Dublin, Shannon and Cork, is that the cost basis is very much impacted by the range of activities actually carried out by the airport authority itself. For example, we carry out a certain amount of direct retailing at the airports. We do the duty free and tax free shops at Dublin, Shannon and Cork airports. We also carry out security service ourselves across the three airports. That wouldn't necessarily be the benchmark airports. Equally some services are outsourced and some are held directly. Shannon airport would be in particular more different to Cork and Shannon in that it also is engaged in some ground handling activities, for example, in-flight catering and fuel provision, which wouldn't be the case at Dublin or Cork airports.

Equally the operating cost basis impacted by the service levels, and that is service levels in terms of what is demanded by both the users and the passengers and also underpinned as well in the context of IATA standard B. IATA standard B very much is based on service levels in the context of space and capacity for flow of through passengers,

and buildings are designed to IATA standard B initially, but as the growth and capacity builds up in those buildings they don't necessarily -- they have to be maintained and invested in again to keep the backup to that service level. So if they get congested the service standard moves well below IATA standard B, sometimes down to D and F. So the investment is necessary to actually maintain new buildings and new investments at that level as a way of going forward.

Based on our initial review of the draft determination, we don't think that it is apparent -- it is not apparent to us that the benchmarking

exercise reflects these particular differences in the context of Dublin, Shannon and Cork airports. On the most recent independent benchmarking exercise that was done of Aer Rianta by Morgan Dunne & Reed with that review on behalf of the Government, it was actually indicated that Aer Rianta's profit margins were low compared to its major European peers, and that that was a result more of low airport charges as opposed to any excess of cost placed on the company, and also that Aer Rianta's comparative operating cost performance would be in line with airport operators undertaking a similar range of activities, and that also it recognises that our level of capital expenditure in the past was low compared to our peers.

So I would think Commissioner, it is very important that the benchmarking exercise in account with trying to determine the operation efficiency and the necessary operating cost based for the three airports is actually carried out on the basis of a very comprehensive benchmarking exercise that compares like with like and that that's critical to the three airports. And we believe that in the company we have taken a very commercial approach over the years, and we have strived to put through a significant amount of operational efficiency and productivity into the business, and that is evidenced even in the context of our own averaged operating cost per work load unit and per passenger over the last five years.

The other key factor impacting on the operating costs of the airport Authority and for Dublin, Shannon and Cork would be it is linked into the partnership negotiations in the context of pay, which is also set for the company. The big costs at the airport are employment costs which is significant also of the company and its investment in people and also its investment in capital and depreciation interest and payroll would be a substantial part of the airport costs.

Equally there are significant costs from factors

outside the control of the company, for example, rates which only became a cost on the company in 2000, previously Aer Rianta was not actually subject to Local Authority Rates, but that is now a significant new cost on the company. And equally the company in terms of taxation is now subject to corporation tax and all its profits which would not have been the case before 1999.

The fourth factor as the Commission's draft determination consultation paper CP6 sets out, it is

important -- and we agree with the Commission, that the airports should and the Airport Authorities should earn a sufficient return to encourage future investment and growth of the airports, and to incentivise the Airport Authority to invest efficiently in facilities. It is also, we would say, important that the rate of return determined is actually consistent with the valuation and basis adopted for the asset base of the company.

Then in the context of the draft determination itself, it is based on a regulatory till which I think is based on a single till approach to the key elements that go into the regulatory till, i.e. that all revenue is earned at the three airports, Dublin, Shannon and Cork are taken into account in determining airport charges. The Commission also recognises the dual till as possibly a method that

could be used going forward in the future for Dublin airport, and particularly in the context of economic efficiency where airports might be at or near capacity or over capacity.

The current -- we believe the dual till is a superior approach from an economic perspective and we would see that really a number of regulators and also market analysts out there, and the funding bodies would also be recognising that dual till now would be recognised as more economically superior to a single till, and it encourages a more efficient economic behaviour by both the operator and the various users of very expensive infrastructure facilities. And there are a number of jurisdictions moving away from the dual till approach including Switzerland, in Germany, the UK is considering and have had quite a lot of debate on it. Australia has adopted a dual till approach, and also in South Africa. We would suggest to the Commission that it would be better actually introduce the dual till approach from the outset in terms of this first determination, independent determination of airport charges, and to avoid a difficult transition at a later stage, and we believe that it is appropriate to apply to all three airports at Dublin, Shannon and Cork, and that Dublin does not warrant any particular remits which is different to Shannon and Cork in that regard.

The other key factor in terms of setting the maximum airport charges, the Commission has made the draft determination on the basis of setting the maximum charges on an individual airport basis. We believe and would recommend to the Commission that maximum airport charges would actually be determined for the airport Authority on a group basis, as an average

revenue yield per passenger across three airports. We believe that setting on an individual basis will not allow for maximum efficiency and will be significantly detrimental to the development of traffic and development at Cork and Shannon airports. Particularly in the context of even looking at the initial draft determination.

The Commission in its draft determination recognises the need to encourage the efficient and effective use of all resources by the airport Authority, and that is also set out in the Aviation Regulation Act itself, and that is the efficient and effective use of all resources by the airport Authority, not individual, separate or discrete resources. And we believe that it is important to preserve the existing economy scale and deficiencies from operating the three airports as a group and the three airports as a system. As I said at the outset, each of the airports operate on a highly complex regulatory regime and the context of

actually the provision of infrastructure and the operating of facilities, at the moment the group would thrive significant deficiency from managing that whole regulatory and compliance environment and the licencing on a group basis and providing those skills and resources common, and providing the services across three airports.

If they are to be looked at as individual units, then it would be necessary to also consider each of those airports carry the individual costs of those airports carrying those individual costs on their own, which would be in our view significantly greater than the group costs at the moment.

Managing them as a group also, we believe, enables a balanced investment programme across the three airports and makes sure we actually manage the utilisation of capacity and the decision making in terms of when the new capacity needs to be delivered, and also influences the marketing policy of the development of the traffic growth at each of the airports in that context, and better utilisation of any unused or excess capacity.

The Commission suggests that in the regional context that there would be an opportunity for Aer Rianta through its pricing structure to actually consider dealing with capital regional issues in relation to

Cork and Shannon airports, and also that it may have the ability to actually invest in with I considers unnecessary investment and facilities at some of the three airports, in particular Cork and Shannon airports. We believe that Aer Rianta's ability to

do that is significantly inhibited once the maximum determination of charges is determined by the Commission. Competition law itself will inhibit -- will restrict us in terms of how we will be able to translate the maximum airport charges of the Commission into pricing structures for each of the airports, and also it will place significant funding constraints and inhibit Aer Rianta's ability to make unnecessary investments in Cork and Shannon airports, or what it considers unnecessary investments.

So we would thank the Commission for this opportunity to present the paper in relation to our initial views and the significant elements for the determination of airport charges, and we would like to say that we will also provide a very comprehensive written submission as part of this statutory consultation phase by 26th July, so thank you very much.

MR. PRASFIKA: I would like to thank Aer Rianta very much for their submission. I would like to thank them for staying within the allotted time and I hope other people

will follow that. I just have a few questions in terms of following up in terms of your presentation. If I understand it in terms of regulatory asset base you believe that replacement cost is the more appropriate valuation, and that you also believe that the use of historic cost in the context of the Irish airports will understate the value of the assets. Would you like to tell us what you view is as to what is the replacement cost for the Irish airports?

MS. SWEENEY: Yes, we have actually and it will be submitted to the Commission as part of our written submission on 26th July, a very detailed valuation of the airports which were carried out based on Arthur Anderson, International Consultants and Experts carried out a very detailed valuation based on the 1999 asset base of the company, and that has now been moved forward to reflect the 2000 asset base, and we will provide that to the Commission as part of our written submission. That will set out the basis for the valuation across all the component elements of that asset base airfields, terminals, runways, land and we will set out what we believe is a very comprehensive independent analysis on that basis.

MR. PRASFIKA: But are you prepared to tell us now, what you view is as to the replacement value of the assets?

MS. SWEENEY: Yes, we will actually

submit it to you  
Commissioner. I don't actually have it with me here

today. But actually I think it should be recognised in your paper in our footnote in that it will actually result in an adjustment to the existing -- and upward adjustment to the existing net book value of the assets per the annual accounts.

MR. PRASFIKA: Would it be fair to characterise it as a significant upward adjustment?

MS. SWEENEY: That would be correct Commissioner.

MR. PRASFIKA: Okay, moving on to the CAPEX, you stated that the Commission's recoverable CAPEX programme was 2.79 passengers over the ten-year period, and you viewed this to be too low, is that correct?

MS. SWEENEY: That's correct

MR. PRASFIKA: Now, would you like to tell us what you think is an appropriate level of CAPEX?

MS. SWEENEY: Yes, we believe that at the moment in the context of the airports that were actually operating under capacity -- particularly at Dublin and Cork airports, and in the short term there is a need for significant investment in those facilities which is currently underway. We believe that in that context that really we are looking at spending on average ú8

to ú9 a passenger in the short term in those airports to provide the capacity, and in the context of going forward to the future we believe that to deliver new facilities for growth and maintaining existing asset base, there is a need for minimum investment in today's money terms of at least ú5 a passenger.

MR. PRASFIKA: So effectively, if I characterise what you have said, is that roughly you believe that the appropriate level of CAPEX is about a double of what the Commission's recoverable CAPEX is, in its document?

MS. SWEENEY: That's correct

MR. PRASFIKA: Now moving on to the draft determination in terms of the level of increases, in terms of our published charges -- not charges, excuse me, our published draft determination characterised or by reference to yield per work load unit, I am assuming that you are arguing that those are too low?

MS. SWEENEY: That's correct.

MR. PRASFIKA: Are they too low for all the airports, only the some of them?

MS. SWEENEY: Well our position, Commissioner, as set out in my presentation is we believe that the Commission should set the maximum airport charges on a group

basis.

MR. PRASFIKA: Okay, I guess if you were to take the average together you could calculate effectively, again on that basis you see them as too low?

MS. SWEENEY: Correct.

MR. PRASFIKA: Would you like to tell us what you think they should be on a group basis?

MS. SWEENEY: On a group basis we believe that there is a need to actually set maximum record charges which we believe are roughly double the existing charge structure for the company.

MR. PRASFIKA: And that would be taken as a group?

MS. SWEENEY: Taken as a group, yes.

MR. PRASFIKA: Thank you. Cathal, did you have some questions?

MR. GUIOMARD: Yes, I have one or two questions. On the capital expenditure issue, you mentioned at one point in your presentation that Aer Rianta operate on a commercial basis, does this mean that for the kind of large scale investment plans that you have described, that you will carry out formal cost benefit evaluation of these large projects in order to show that the value, the benefits exceeds or substantially exceeds the cost involved in carrying

them out?

MS. SWEENEY: Yes, in relation to, for example at the moment, one significant programme that is part of that capital investment programme that is currently underway would be the development of new terminal facilities at Cork airport, which would be the most significant investment required at Cork airport to deal with the existing capacity constraints. And in that process there is a very detailed process underway with experts in conjunction with the Airports Authorities with experts Jacobs Engineering and other advisors, and also with the users going through both the design and requirements and the capacity for that, and also now going into the very detailed cost evaluation exercise on that.

In addition the company Aer Rianta is required to actually publicly tender for all its mayor capital projects, so it is subject to public tender process and we believe through that process we should get the most economically effective costings in price. And in relation to the existing asset base of the company, the past expenditures and significant projects would actually have been subject to those capital plans were approved by the previous

regulatory authority and also Aer Rianta would have been subjected to over the years to a significant amount of review by independent consultants

appointed by that regulatory authority at the time of the development of major facilities at the airports in the past.

MR. GUIMOARD: Okay, thank you. On the question asset base, as Bill has said you favour moving to a replacement cost principle. Would you be proposing to use that in your published accounts as well as for regulatory purposes, or would you be continuing to use the standard -- the approach used in the accounting system for the future as well?

MS. SWEENEY: That's in relation to the statutory of published accounts of the company, that accountancy policy change has not yet been considered by the board of the company. So it hasn't actually been considered yet.

MR. GUIOMARD: Okay, on the question of a single or dual till which would obviously have a major impact on the level of charges, you cited some jurisdictions where consideration has been given to a different approach. Do you consider that moving IN that way from the current system to a dual system should be related to issues of capacity at the airports in question, or do you favour moving to it without necessarily reference to the capacity situation at the airports?

MS. SWEENEY: Yes, my view is that it is not necessarily -- that decision is not necessarily determined by the particular legalisation or any extent of legalisation of existing capacity of the airports. It is more in fact during the context that airport charges should, as you set out in your own paper, appropriately remunerate investment in airport infrastructure and facilities required and encourage proper economic behaviour by the various users and operators of those facilities. In that context I believe that they are the factors that should determined the airports to be taken into the composition of the regulatory till.

MR. GUIOMARD: Okay, that my questions. Any other questions?

MR. HOGAN: Yes, if I could go back to the issue of CAPEX investment, you took the example of Cork and you said you were doing detailed costs on that, but before the actual decision to make the investment, before the consultants are hired and the planning process begins, do you have an analysis which weighs up the costs and benefits of the investment behind

going forward with the actual project?

MS. SWEENEY: Well up to, I could say that over the last couple of years it has been extremely difficult for Aer Rianta to do cost benefit analysis in relation to the investments of the airports, particularly in the

context that the airports have been operating at over capacity in some cases, and there has been huge pressure on the company to deliver facilities and infrastructure to meet the demand, and the significant demand of the business without any, I think, adjustment to the main revenue side which is the airport charges. We have been operating in an interregnum over the last couple of years in the context of airport charges, there has been no adjustment to those, and yet we have been required to put in place facilities. So it has actually been a very difficult task for the company to actually do any sort of a revenue cost benefit analysis in the context that we didn't know what the revenue was likely to be in the future, and I would welcome your decision now in the determination of airport charges that will set a basis for the company going forward in the context of doing that revenue cost base analysis on airport infrastructure.

MR. GREY: And I think we should add that in the context of looking at capital investment, the company is looking at the strategic needs of the airports. The company is looking at the particular operational and safety needs at those particular airports and what are the best means of providing those. And a heavy degree of emphasis should be put those factors. I think the point you were alluding to Oliver, was maybe in relation to the financial appraisal and

that is, for example, far easier and clearer to do where you have defined revenue streams such as in perhaps, for example, in retail or car parking type activities where there are discrete incremental revenues, than in the situation for example, where in aeronautical activities where if you like the definition of the revenues is in a sense being currently assessed at the moment, that definition is currently being determined.

MR. HOGAN: There is also a social prospective.

MR. GREY: Absolutely.

MR. PRASFKA: Okay, I think that's all the questions we have, thank you very much.

Looking at our schedule we understand that the Cork/South Western Consortium is here and maybe could we begin at 11 o'clock with them if that's okay? Thank you.

PRESENTATION WAS MADE ON BEHALF OF CORK/SOUTH  
WESTERN CONSORTIUM BY MR. MICHAEL GEARY AS FOLLOWS:

MR. PRASFIKA:                   Okay can we begin again.  
                                  Maybe again for purposes  
you just introduce yourself and your presentation  
for the stenographers please.

MR. GEAR:                        Thank you Chairman. My  
                                  name is Michael Geary and  
I am the Chief Executive of Cork Chamber of Commerce  
and I am accompanied by my colleague John Cashel,  
who is the President of the Cork Chamber of  
Commerce, and by Des Donnelly who is the Chief  
Executive of Cork Regional Marketing. I would like  
to thank the Commission for agreeing to allow us  
present our submission this morning, and we will, of  
course, be making a written submission within the  
time frame stipulated by the Commission.

The Consortium is made of a number of organisations  
in Cork as detailed, the Chamber of Commerce, the  
City Development Board, Cork/Kerry Tourism, Cork  
City Challenge Ltd, Cork Regional Marketing, Cork  
Business Association, Cork City Tourism, Cobh and  
Harbour Chamber of Commerce, IBEC-Cork and the  
Irish Hotels Federation-South West. We have also  
collaborated with the South West Regional Authority  
and by agreement they will be making a separate

submission to you. In our written submission, the  
background to these various organisations will be  
explained.

The Consortium represents approximately 3,600  
business in the Cork region and we are making this  
submission because we have serious concerns about  
the determination and the detrimental effect it may  
have on the region's development and the airports  
viability in Cork. Cork Airport is a key element of  
infrastructure of the region and it has contributed  
significantly to the wellbeing to the region and  
obviously any threat to its future wellbeing must be  
challenged.

The Consortium is led by the Chamber of Commerce  
primarily because since the Airport's opening in

1961 the Chamber's Transport Committee have been very active in looking at the services and facilities at the airport, and indeed it can claim credit for an amount of the improvements that have occurred over the years.

The submission is going to focus on the national objectives and Government policy, particularly towards balanced regional development, and the extent to which the determination would impact on them.

If we look at national policy there are both principal objectives outlined in the national development plan. Continuing sustainable national economic and employment growth, consolidating and improving Ireland's international competitiveness, and fostering balanced regional development, and promoting social inclusion. We believe that the existence and viability of Cork airport is critical to the attainment of at least the first three items.

Again in the national plan there are five strategic elements listed which include a major investment programme in economic and social infrastructure, and a commitment to better regional distribution of public and private investment. In addition to the national spatial strategy which is in the course of finalisation as a focus on regional development particularly the imbalance between and within the regions in the distribution of national economic progress. The growth and expense of greater Dublin area giving rise to problems of congestion and housing shortage, and rapid growth of major urban centres outside Dublin and their role in driving the development of the hinterlands and providing a counter-balance to Dublin.

The national spatial strategy also places additional focus on competitiveness, regional gateways and the need to "identify strategic or long term

infrastructure to facilitate the development of the gateways."

I turn now to the South West region. The South West region is the second most important region in Ireland in terms of economic development and contribution to the national economy. For example, it hosts 65% of the pharmachem industry in the country, it has significant presence in information communications technology, health care and international services, and tourism is a critical economic activity throughout the region which I will again refer to.

On the industrial side it hosts 132 foreign direct investment companies which employ 19,615 people. It produces approximately 20% of Ireland's national exports and that, of course, would also include large indigenous companies. All of these are extremely airport dependant and indeed demands for additional facility and services are constantly raised with the Chamber and the other organisations.

The Commission will be aware that in regard to regionalisation there are now two regions in Ireland. Cork is in the southern and eastern region and is therefore objective one in transition. West Cork and south Kerry being in that region are probably the most disadvantaged regions in the whole

country. All the other counties on the west coast are in fact in the object of one region. In that regard tourism is the critical economic activity as I have already mentioned, and in 1999 prices it was ú588 million pounds to the region.

Cork city itself is the second city in the country. It is a regional capital and it is central to the region's development and wellbeing. It is an extremely attractive investment centre, and IDA success tell us that this is due to the existence of the airport, third level education facilities and first class research facilities. Tourism is also import in Cork and Cork Region Marketing represented here by my colleague Des Donnelly, have identified various opportunities that are very dependent on competitive access to the region, such as for example U.K. short breaks.

Due to the overcapacity of Dublin, metropolitan Cork is central to any counter-balance to Dublin. History shows us that economic agglomeration is maximised when large units exist and in recent years various planners, and in the discussion on the national spatial strategy, Cork has always featured in these, whether it be a Galway/Limerick/Cork corridor or a Limerick/Cork/Waterford access. Wherever, Cork features strongly as the principal location in the counter-balance.

At present Cork's Strategic plan for the year 2020 is being prepared by both local authorities. This encompasses a region of a 30 mile radius and will have a population of 425,000 people. As a result there will be a growth in population of 80,000, jobs increased by 6,000 and dwellings by 7,500. The national spatial strategy estimate also that further additions could be made to these figures. Population increase of 16,500, jobs 6,000 and dwellings 7,500.

Cork airport was established in 1961 and it coincided with modern Ireland's economic development. Today it services 40 airlines to the domestic market, the U.K. market and to Europe and in 2000 it had 1.7 million passengers.

Investment, unfortunately, has always lagged behind the other two State airports. There are some basic omissions today. We have no sheltered car parks, or indeed shelter to the aircraft. We have open air car parks and no airbridges. In fact, this morning all of us are carrying umbrellas and coats because we were drowned going to the plane and getting to the terminal. These are acceptable standards in this day and age and project a bad image for Cork and the airport.

Cork airport is an efficient entity as evidenced by

the Commission's own benchmarking. It is a key to region of infrastructure and makes major contributions to the national and regional economical development. Any disadvantage to airport charges would inhibit its services and hence the balanced regional development, and indeed its ability counter-balance to Dublin. Without competition -- without a competitive Cork, this is virtually impossible.

In 1996 an economic impact study was taken at Cork airport which is referred to by Garhart, Moloney, O'Leary and Donnellan which projected that the airport had a passenger spend of ú160 million and that through this 3,500 jobs were retained.

The Cork airport business park has grown up adjacent to the airport on the basis of Airport's development and enhancement of further services. Today it houses -- it is almost full to capacity employing 2,500 people in a range of international services. IDA Ireland have said on many occasions that the success of Cork has been due to the international airport and the connections it provides.

In looking at the Aviation Commission's criteria for determination as required under Section 33 of the Aviation Regulation Act and the determination that it proposes to make, there are ten objectives of

statutory functions. We submit that in regard to a number of these, such as efficiency, effect on the region, operating costs/benchmarking, service level and international competitiveness that Cork has fared extremely well and we have addressed these issues. We also, of course, acknowledge the Commission's research in highlighting a number of these factors on our behalf. Both Cork airport is

both a vital need and an efficient entity.

If we look at the determination of charges as proposed by the Commission, we suggest that the should be due regard to the total impact on all State airports, and it comes across that there appears to be more concern for Dublin and Shannon, although I was glad to hear our colleagues in Aer Rianta place so much emphasis on Cork. We do accept a number of the Commission's views on the statutory factor. For example, we favour the incentive regulation of the CPI x price cap, coupled with serviced monitoring. We favour the historic cost basis, but the regulatory asset base should consist of current assets necessary to provide services and should be adjusted for depreciation and inflation.

Non-core profits we feel should be directly related to all the airport activities and used for a the benefit of all users. We recognise a need for a rate of return by Aer Rianta, however, airports are

low risk, they are a State company and they should be able to borrow at extremely low rates, such as Euro rates rather than some of the rates suggested by the Commission, and I think it has to be recognised also that they are unlikely to default given their status on such borrowings.

In regard to charges we believe the airlines should be charged for the services they need and use only. There should be no payment for non-operational services, the formula should be changed as facilities come into use. We are opposed to differential pricing for identical services and all services should in fact demand met.

In regard to the charges CAPEX for the three airports as set out in Annex 4 shows Dublin with ú500 million approximately, Cork with ú100 million approximately, and Shannon with ú85 million approximately. We are concerned however that allied to Cork's exists low base, how such a discrepancy in the proposed charges can exist, and it does appear that Cork having been neglected originally now might further be penalised which, of course, is not acceptable.

In regard to the sub cap under consideration for Dublin, the proposal regarding off-peak runway charges should apply to all airports equally. We

cannot understand, in fact, how the sub cap and commercial activities will work as we feel it will be impossible to attribute new revenues to new investment only.



certainly lagging very much behind, but as I just raised the point there I questioned why the cargo development, which was seen to be a greater contributor, has been omitted.

MR. PRASFIKA: Okay, I just wanted to see whether or not you have a particular view as to precisely the CAPEX programme should be to Cork. Now you said that cargo should be included, do you have some overall prospective, we have said €100 million, do you think it should be €150, €200 etc.?

MR. GEARY: Well I don't know the exact cost that would be associated with the cargo development, but obviously that would be a €100 plus, yes, it could be €150 million.

MR. PRASFIKA: Would it be fair to characterise it as you would advocate it as something significantly in excess of what the Commission has advocated?

MR. GEARY: Well €50 million is debatable, whether it is significant or not. It would be in excess, yes.

MR. PRASFIKA: If you could also address the view of the Consortium in terms of the particular price cap, the price determination. As you will note there is a

significant increase given to Cork over and above what is given to the other Airports, do you have a particular view on that?

MR. GEARY: Yes, I thought that that was what I tried to make plain in my presentation.

MR. PRASFIKA: So if I could just understand, are you advocating a lower price cap for Cork?

MR. GEARY: What I am advocating is that Cork would be placed at no disadvantage compared to the other airports.

MR. PRASFIKA: Now I take it, is it your view that if Cork were to raise its prices to the maximum level that would be allowed in the yield formula in the draft determination, that this would damage Cork airport?

MR. GEARY: It would damage Cork airport if it is not kept in line with the other two airports.

MR. PRASFIKA: So is it your view that such a price increase would be unprofitable?

MR. GEARY: Yes.

MR. PRASFIKA: Well then why would Aer Rianta do it?

MR. GEARY: Well obviously they have calculated in their investment programme that there is a return to be

made in respect of the three airports. I think we heard from their own presentation this morning, they feel there is considerable benefit to be had by enhancing the services at Cork airport, and as I tried to demonstrate in my presentation, given Cork's role in the national and regional economy, I think it is critical that the facilities there would be brought up to scratch.

MR. DONNELLY: Commissioner, if I also could just add to that. I suppose one of our other concerns is that as a small but very significantly growing airport, Cork has had to build up marginal routes with airlines. We would be concerned that at a time when airlines internationally, right across Europe and beyond, are very much under pressure that where we would be trying to build up additional routes out of Cork, direct routes out of Cork, which would be very marginal, particularly the initial 12 to 18 months, and that this would inhibit the development of marginal routes if there were additional charges imposed on Cork over and above other airports.

MR. PRASFIKA: If I can understand you point you are suggesting to me that the marginal costs of growth at Cork airport is higher than at Dublin or Shannon?

MR. DONNELLY: Correct.

MR. PRASFIKA: You are also suggesting that there is a very

significant CAPEX backlog that is required?

MR. DONNELLY: Correct.

MR. PRASFIKA: Now in terms of both of those, who should pay for that?

MR. DONNELLY: Aer Rianta has to pay for it.

MR. PRASFIKA: Well Aer Rianta where are likely to get the revenues to pay for that.

MR. DONNELLY: Well Aer Rianta has within its remit right across the board, the opportunity to impose particular charges on particular airports, because Commission is merely setting down maximum charges. But we will be making the case, as I say, that yes there is a capital programme that has to be brought in because Cork is completely over capacity at the moment and that has been for historical reasons. Equally so, we will be saying that while any additional capital expenditure which is required in Cork has to be brought in in terms of its overall -- Aer Rianta's overall capital expenditure programme, then it is less significant than it would be if it was just standing on its own.

MR. PRASFIKA: Okay, you said on page 23 of your presentationes

that airlines should be charged for services that they need and use. Now are you suggesting that, for example, an airline that only uses Dublin airport

that part of the revenue there should be used to pay for Cork?

MR. GEARY: No. We are saying that the services out of a particular airport should be used.

MR. BURKE: May I just ask, you stated that there was insufficient cognisance of the national development plan in the draft determination. It would be use useful maybe if you could give us your view on how the Commission could do better, as you would see it, having regard to the statutory factors that we must operate within and the singular statutory objective that we have.

MR. GEARY: Well as I said in my presentation, Cork cannot be placed at a disadvantage compared to the other airports, and that is what is proposed at present with regard to the charges. I am not in the position to say whether the charges should be A, B, or C, what I am saying is that they should be equalised.

MR. PRASFIKA: I think we have no more questions.

MR. DONNELLY: The only other point, Commissioner, that I would like to make, I suppose again just to reiterate a point that Michael made in the presentation, and that is the suggestion by Commission that thwew

maybe a sub cap for off peak use at Dublin airport. While we see very good reasons for that, we cannot understand why that should be exclusively determined for Dublin. We would make even a stronger point, I think, for Cork insofar as a much smaller airport with much more off-peak time available, and indeed with a need to build up marginal routes -- again I come back to this point because it is very important. Cork Chamber for many years has been working behind the scenes with different airlines trying to attract them into Cork to try and get them to come in and give direct additional direct routes out of Cork, and we have had some success with that not exclusively due to the Chamber's efforts alone, but because of other airports or other bodies such as Cork Regional Tourism and so forth. But it is very important that where this is recognised as being an item that should be considered, we would really make the point that it should considered for all three airports.

MR. PRASFIKA: Just in relation to the sub cap in terms of runway use in Dublin, the important thing to keep in mind

is that is for runway use alone. So if you would like to make the point that there should be a sub cap in Cork, you can inform us during which period the runway is at or near capacity, that is something of which you can inform us.

MR. DONNELLY: We certainly will be very happy to build that into our written proposal.

MR. PRASFIKA: Okay, thank you. We have no further questions.

Thank you very much indeed.

Now I know we are running ahead of schedule. I think the person who is here at 2 o'clock is he actually ready to go ahead shortly?

PRESENTATION WAS MADE BY MR. ANTOIN DALTÚN AS FOLLOWS:

MR. PRASFIKA: Well first of all I want to thank you very much for accommodating our schedule and for agreeing to come early. Maybe if you just introduce yourself for the purposes of the professional record keeper, and if you prefer to stand, well that's perfectly fine.

MR. DALTÚN: And you can hear from here?

MR. PRASFIKA: They can hear you from the back I hope.

MR. DALTÚN: I spent 29 years in Aer Lingus in various roles, in airport planning, business planning, fleet planning and asset management, as an advisor to senior management working with Government departments, working with the E.U., working with

Boston Consulting Group, Goldman Sachs. I could be described as the licensed in-house heretic. -- one should never do like closing down the North Atlantic, for example. I was Chairman of the Research and Planning Committee of the Association of European Airlines which might be called the Full Service Airlines, based in Europe.

Since 1995 I have been operating in a low key way as

a consultant and as a lecturer on business issues, mostly in the aviation field with airlines, airports, other organisations involved in air transportation, but also in some other businesses in Ireland, the U.K., the continent and in Latin America. I have also been involved a course called Fiontar in Dublin City University, but today I am here as me, as a citizen and I appreciate the opportunity to come and speak as a citizen.

I am stimulated by the work I do in the course called Freagracht Sh=isialta agus Fiontrafocht and social responsibility and enterprise in DCU as part of the undergraduate course, where we discuss issues such as competition, fairness, abuse and so on. And one of the issues that does come up is whether a small country can really expect to have, can we afford to have world class operators, world class regulators, world class responsible Government departments, meaning in this case public enterprise and finance, because finance is always involved in everything, and ministers. Now this is really a rather challenging set of criteria to apply, and set of resources to assemble.

The Government took that decision and appointed a regulator so what one sees as the advantages of a regulator are the context of interest where clarified, perhaps avoided more often clarified, in

this case I think we are talking mainly of conflicts between Aer Rianta, Aer Lingus, the other airport operators and users. One would hope to get an impartial analysis, external benchmarking that the regulator was not a stake holder in the operational or conventional sense. It would be increased directly subject to political and regional pressures, but of course open to good regional presentations, but would help to optimise resource level -- resource management at some high level, and that ultimately there should be benefits for the final users provided the job is well done.

So in a sense, Commissioner, I believe it would be quasi-judicial responsibility, that the Commission has a quasi-judicial responsibilities, it should set itself high standards. And that I think is

especially so since the administration in general is subject to the Freedom of Information Act and to the ombudsman but the Commission, as I understand it, is not.

Now when CP6 came out -- sorry, let me say that that means also that the regulator has to establish trust with the public, and some of the criteria one would be looking for from the Commission would be professional standards in respect of transparency. One would expect that the facts would be accurate, one would expect that there would be logic to the

conclusions, and one would expect that conclusions would be clear and unambiguous.

Now CP2 is interesting, it has a lot of interesting debating points. I would be interested to see what emerged in CP6, which I have to say I found a most disappointing document, and I sent in 28 questions -- by coincidence I read that Martin Luther had 28 points on his reform programme. Now some of these questions to my mind were very simple, one would almost expect them as a matter of course to appear in a report like CP6 or the explanatory memorandum part of it. Such as what exchange rates were used for non-Irish currencies in the benchmarking exercise? Others were more searching, some of them you have already heard today from Margaret Sweeney in particular.

Now the reason I am here today is that essentially I have got one answer to all of these questions. The punctuation by the way is the Commission's it is not mine. The Commission believes that CP6 meets and exceeds what the Commission said it would do in CP2, what is required of the Commission under the Act, and what is required by the relevant principles of fair procedures to the extent that they apply. So when we say that some of the questions that I would have thought that the Commission would have answered that are important are what criteria are applied to

recoverable capital expenditure, past and future? What projects are included or excluded for the future? Are customers in 2001 being expected to pay for projects which are to be operational in 2002, 2005, 2010, there is no information on this basic factor and certainly if one goes to the airport, or one goes to regional airports and they take €5 off you and they tell you this is for the great airport you are going to have in a few years time. Now to some extent one can accept that in a regional airport, but is one to accept that in the regions, but is one to accept the standards in Dublin airport plus a premium for the wonderful facilities that is going to be there hopefully sometime in the future.

When we dig a little deeper the core of this in sense one would be expect to be a benchmarking exercise, in exhibit 1 which is on page 43 of the paper we read that Aer Rianta is a private company. We read that at Dublin there are sixty-five non-remote gates or scans. My count is somewhere around thirty. We find lots of data headed as not available. Glasgow it is apparently a secret or unknown how many gates or scans there are. It is unknown whether there is a rail link or not. At Stansted we are told the breakdown between domestic and international traffic is not available. That is a matter of public record. All of these facts are readily ascertainable, but they are wrong, carries a message.

For Cork and Shannon we are told virtually nothing. The data presented is essentially limited to operating expenses per work load unit for the airports against which it is benchmarked, where a work load unit is a passenger or a hundred kilos of cargo. Useful sort of numbers to use at the margin, but if you are an airline you will not get the same revenue for a hundred kilos of cargo as you will for a passenger. So from small differences it is reasonable enough. We have no physical or operational data. Only sound benchmarking, I suggest, is useful, like with like and a reasonable level of detail. Similar ranges of services to similar standards, similar cost definitions. Services as have already been mentioned, services provide by airport authorities differ. Emergency security, who pays for those? Passenger cargo handling - does the airport provide them or does somebody else? Surface transport services, the train service to Dublin airport seems to feature, own shops or concessions, own catering and concessions, car parks, air traffic services and so on.

Financing varies widely, sources of funds, cost of funds. Treatment of financing, depreciation, amortisation, leasing, rents in and out.

The work load unit is a really only fair measure for similar airports. It ignores lots of factors, short-haul airport, long-hall airport, aircraft size whether the aircraft is full or empty. Terminating transit flights, transit passengers. Express cargo, general cargo, trucked cargo, general aviation, business aviation, in other words peaking by hour of the day, day of the week, month of the year. This is carrying, I suggest, to an extreme in benchmarking Shannon and Southampton. Shannon

essentially is transatlantic gateway against what is essentially a Channel Islands service A330/777 sized aeroplanes against regional jets and turboprops.

Again the U.S. airport figures are shown for Dublin and then dismissed and nobody explains why. I mean I think I know why, but I am not sure, I don't understand why we are not told why. One is led to the suspicion that in the end of the day there was a short-cut approach to benchmarking that published cost figures were taken and divided by published work units and I would put it down that that is a very hazardous way to do anything.

Now coming to the conclusions. Everything is based on one year, 1999. Perhaps reasonable, perhaps an exceptional year. It is a bit odd to base a long term project on essentially one sample. When

looking at future insofar as one can derive what is being recommended it is that 50% of the efficiency gap derived by the Commission, 50% gap in 1999 is to be closed by some time in 2006. The goal posts seem to be static. The economies of scale from future growth, or perhaps the economies are not addressed. One assumes that other airports have used cost improvement targets, these are not addressed either.

By implication the draft determination will be based on taking the operating cost in 1999, adding the volume of growth making allowance for efficiency improvements and scale, adding return on investment, past adding return on capital investment future, deducting commercial revenue under which ever till arrangement, plus or minus the CPI adjustment, divided by the volume forecasts, but we don't see any of that. Why is that important? Well one of the reasons it is important is that it would be reasonable that we have to be able to conduct some kind of sensitivity analysis so that we can see if the world changed what would be the implications be? Because one of the things we do know is that we can get the forecast wrong and we can get as least as many wrong as amongst other people.

I am sorry, I have missed a couple of overheads. I would like to add about the clarity of conclusions, that it is unclear when the CAPEX is seen as

recoverable, when it is spent or when it is of value to the consumer. In CP2 and in part of CP6 there is talk of an adjustment of CPI minus X%. That seems to have vanished, whether that is sort of a proof reading exercise like my not having the next overhead, or whether it is proposed to replace CPI minus X, is not clear.

So I would ask really does CP6 meet professional standards? If it doesn't meet professional standards then just there is the question about some of Aer Rianta's cost being recoverable, then should the cost of this exercise be recoverable in the levy on operators.

So where might the Commission go now? Perhaps the pragmatic solution of some kind per year. Perhaps benchmark Dublin maximum charges against conquerable European airport charges, CAP being at maybe a median level, and perhaps saying Cork and Shannon should not exceed Dublin charges on regional policy grounds and on pragmatic grounds on the basis that the market will not pay more than before. Thank you. Sorry, having a chair rather than a table caused the slids to fall on the floor.

MR. BURKE: I think it is appropriate in response to some of the points that you have raised, for me to set the record straight. First of all, there is no

exemption in respect of the Commission of Aviation Regulation under the Freedom of Information Act. The way the Freedom of Information Act operates is that bodies as they are created are added to a schedule. So far as I understand it, and maybe you have more up-to-date information, the Commission has not been added, it maybe added, it is not a matter in which the Commission has any view. It is a matter for the Department for the Minister for Finance. So therefore to characterise it as an exemption I think is factually erroneous.

MR. DALTÚN: It is not subject to it, I accept your correction.

MR. BURKE: Secondly, in relation to the questions that you have asked, the Commission believes that it has endeavoured to answer then as fully as it can, and furthermore I think we would reiterate the point that CP6 meets and exceeds what is required of us under the Act. I think it is just important to say that.

MR. PRASFIKA: I think we have no questions and I thank you very much for coming forward earlier to do your presentation.

Maybe if we could just break for three minute and we can then determine whether or not the afternoon schedule can be moved forward as we are running a

bit ahead of schedule. So if you could just stay put for a few minutes we can try to organise the afternoon so it is more convenient for everyone.

(THREE MINUTE BREAK)

MR. PRASFIKA:                   Okay, someone has agreed  
  to start at 2 o'clock. So  
can we break now and resume at 2 o'clock with the  
Irish Association of International Express Carriers.  
Okay, thank you.

PRESENTATION WAS MADE ON BEHALF OF THE IRISH  
ASSOCIATION OF INTERNATIONAL EXPRESS CARRIERS

(IAIEC) BY MR. MICHAEL DARCY AS FOLLOWS:

MR. PRASFIKA: Okay we want to thank the  
Irish Association of  
International Express Carriers for agreeing to move  
forward and we give you the floor now.

MR. LOMAX: Good afternoon, and on  
behalf of the Association  
thank you very much for the opportunity to present  
our response to the Commission. The members of the  
Association here today are myself, Peter Lomax, in  
capacity of Chairman of the Association. I am also  
a Managing Director of DHL. On my left is Michael  
Farrell who is the Operations Director for DHL and  
on my right Michael Darcy who is the Policy Advisor  
to the Association. Michael?

MR. DARCY: Good afternoon everybody,  
good afternoon Commission.  
Thank you very much. We certainly appreciate this  
opportunity. We note those who have not taken the  
opportunity to engage in this consultative process  
by presenting to you here in public and allowing  
their position to be questioned by the Commission in  
public as well.

This is going to be a very partisan presentation in  
that it is going to be strictly dedicated to goods

because generally speaking to date on the activities  
and the role of the airports, Dublin, Shannon and  
Cork, the importing of goods and the fact that these  
airports have dual mandate in that regard are not  
always highlighted, in our view, as well as they  
should be. So I hope that the people on the  
passenger side will forgive me for once if we  
generally ignore you.

Just very quickly first, a brief introduction to the  
Association and what we are about. Basically the  
members are IAIEC represents TNT, or in alphabetical  
order DHL, FedEx, TNT and UPS. You are all aware  
that they are major movers of goods and physical  
information in and out of the three airports. That  
they operate some of the world's largest global  
all-cargo airlines. They do so because the people  
who use their services want fast, safe, reliable,  
cost effective delivery of their production, be that  
in the form of goods or physical information, and  
that this determination's proposals are significant  
therefore, for the members of the Association.

They are particularly significant at a time I think,  
two things, one, significant specifically in regard  
to airport charges are a significant element of  
their overhead. And secondly, as everyone in this  
room knows, the economic climate is changing very  
quickly and this is having a very immediate effect

on those at cold face of the economy, so to speak.

The format of our presentation is basically, I will just give you a quick summary of our views, then run over what the IIAC does and does not support. The Association's questions, concerns and proposals, indications as to where clarifications would be helpful, and finally our preliminary conclusions and requests.

Okay, so moving to the summary. In our view to the extent that we have been able to determine ourselves so far, the draft proposals to allow an unexpected -- in that we are not aware of a great clamour for it, and significant increase in Aer Rianta Teo's or ART's revenue from cargo. We can't see where the costs are that justify this proposed increase at least in draft determination, that is not to say the Commission were very competent, it has done its work in the background in regard to this. We are also concerned as to where, precisely when and where this determination will apply to cargo and its particular characteristics and movements. We are having, as a result of this, some difficulty in calculating the proposal's precise impact on everybody's business, and this is one of great difficulties we have here today in making this presentation. Nevertheless the preliminary calculations indicate a significant increase in the potential revenues that ART will be able to generate from cargo.

Therefore we are forced, at least in the preliminary conclusion, that unchanged the determination will put further upward pressure on cargo operator's cost at a time when, as we all know, there are a lot of other external upward pressures on our cost anyhow, and this could have an impact on the competitiveness of getting goods on and off the island. As I said earlier, everybody is feeling the downturn and we don't think that it is illegitimate that it should be a requirement of users that the Airport Manager share some of that pain with everybody.

On a more technical level, WLUs are an untried if very innovative mechanism for regulating airport charges, and that's why were we are concerned and hopeful that the Commission will clarify the envelope, so to speak, of precisely what cargo landings, parking, takeoffs and movements to and from an airport encompassed by a WLU, and the Commission will appreciate those words are chosen carefully.

Also, and this is probably the most pivotal point of

our presentation, we are concerned about the proposed WLU ratio of one passenger to a hundred kilogrammes, because we don't think it is

necessarily appropriate to have IIC members use and are facilitated at the three airports that are being regulated. Okay so that's a summary of what I now propose to go into in a little more detail.

Clearly we support independent regulation of all airport charges. We support the development and operation of cost effective airports. We believe it is appropriate to have facilitation which is specific and proven necessary for cargo, and we want cargos -- charges for cargos which is cost based, transparent, relevant, objective, proportional and nondiscriminatory. Off the top of my head I am not sure -- I think the Aviation Act may not mention those specific terms, but I know that the ground handling does and certainly the European Competition Law which is the over-arching law in regard to the economic regulation matters does, so we are confident that the Commission has sorted these particular requirements in its core, so to speak, when looking at these matters. What we don't support, and this comes right down to the draft, is allocating almost nine million recoverable CAPEX for cargo at Dublin airport. We have great difficulties with this for reasons that I will go into a little bit later.

We also don't support significant increases in which the revenue ART may generate from cargo at Dublin,

Shannon and Cork, and naturally what we would be concerned about if that fell through the negative and damaging impact, such increase revenues would have on the competitiveness of express service and express service for customers.

So following on from that, we question a couple of things. Again as I mentioned earlier, the proposed WLU ratio, we question that and we are concerned about that and we are going to discuss that in a little more detail. We are also concerned by the absence of detailed data on precisely how it was proposed it would cost effectively enable the facilitation and the better facilitation of the movement in goods through the three airports in question. And we are also concerned a little about the apparently contradictory approach to past and future recoverable CAPEX and its calculation for the different airports. In the determination there is a question of some past CAPEX being disallowed, and yet again from cargo operator's perspective, this nine million leaps off the table for Dublin airport -- very startling.

And finally we are particularly concerned about the relationship between the draft determination in SI 505 of 1998 in defining the 'envelope' of regulated charges and activities to which the WLU applies. We are wholly cognisant of the difficulties the

Commission has in regard to this matter, and the fact that High Court actions before the High Court impinge upon their judgment. Nevertheless, we don't think it is unreasonable to point out that we are concerned that depending on the outcome, we don't want a situation where it is instead of being RPI minus X, it is RPI minus X plus A, where A equals an additional access charge that is outside the envelope.

So to just elaborate on it if I may on more concerns. Leading on from that naturally, I think the Committee at this stage will understand that while the impact is severe, it is just very difficult to calculate in the short to medium to long term what that impact will be. You have a situation currently where operators are struggling to improve their systems to cope with the unprecedented increase in demand that there has been over the last couple of years at a time where that demand is beginning to significantly tail off, and now into this pot comes a possible additional element which is quite difficult to quantify at the moment, it is quite a serious situation in that regard. That's why we are particularly anxious to get -- I don't know, again this is new process, it is always interesting making up a future, but it can be challenging as well. The whole question of WLUs and how it is applied to cargo, and what particular

way and manner you believe that the mechanism will help and enhance cost effectiveness for cargo users in all three airports. And that's why we are wondering why and how the Commission determined that the WLU and recoverable CAPEX will deliver this particular outcome for cargo users. We are just wondering, it is very hard for us to see how, but no doubt we are sure the reasons are there, but we are concerned that we are not able to get our hands on them. And in particular as a practical example, we are not aware of developments or plans that justify the proposed recoverable CAPEX for Dublin, and the key word there is justified. We are aware of lots of plans, lots of proposals, lots of ideas, but the whole question as to how they are justified as cost effective and enhancing the scenario of cargo operators remains unaddressed.

And finally, because this is specifically mentioned by the Commission itself, the question of safety or





I mean again, in the absence -- it has hardly come as a surprise to you in the absence of being able to get our hands on why that figure is in there, we are proposing that the Commission dramatically reduces the recoverable CAPEX programme for cargo at Dublin. We also hope the Commission explains why and how the proposed increase in revenue from cargo is needed to meet the cost effective facilitation operation of cargo. We are not aware and we have studied submissions from Aer Rianta, and as put on your own website into discussion documents, that hardly any case, there might be convincing cases being made in regard that they are not meeting cargo users' needs out of existing revenues. Again as Mike mentioned, we are very keen on the point that where an airport

manager provides warehouse facilities, these costs are recovered as commercial rent, and are not a related charge and so outside the WLU.

I think it is important at the moment, where we are aware that, for example, Fingal County Council has a report before it proposing the rezoning of agricultural land in the immediate vicinity of the airport, business land. We are aware that some of the owners of those business lands have put together quite impressive brochures in regard to the wonderful facilities they are going to put in place with cargos and people very close to the airport, and in terms of moving goods to be beside the M50 for a package, perhaps is not a great an imposition as for a person who was for a person who then had to get to their departure gate.

Also the question of the economy scale which you raise yourselves in regard to Dublin airport, then perhaps it doesn't link in, for passengers again we would argue that it is different for the movement of goods because they can be taken so quickly from the airport, that constraints on the immediate infrastructure of the airport as operated where Aer Rianta don't necessarily impinge on the achievement of the economies of scale for operators in regards to goods.

I also wanted to pick up on your own terminology in regard to the common sense interpretation of airport user. I think that it is not unrealistic to suggest that for goods again airport use is different and perhaps a little anecdote to illustrate that. At the time the airport was closed by industrial relations, certainly the members of the IAIEC were informed by some of their more high profile, high value added clients who are very large employers, that as far as they were concerned, if it stayed closed, Ireland was closed for business for them.

And therefore we don't think it was unreasonable to suggest that in determining the impact on airport users, you take their concerns into account and that any dramatic price increases would not meet their requirements. Again you make the point in regard to unexplained and unjustified CAPEX not being cost effective. So we would like to seek a number of clarifications. Now we are not sure how this process works and we can understand it is not possible for you to give us those clarifications, but as it is a consultation process we thought it wasn't inappropriate to put them forward. Particularly sometimes if one operates as a consultant and people ask questions the kind of sometimes expect answers, okay.

We try to bring it down to a very simple level which sometimes helps, and our friend - a kilo. Will a

kilo travelling from Dublin to Shannon to Cork, because that can happen with goods coming into the country on the same plane. Dublin goods off load at Dublin, the Shannon goods in Shannon and then the last to be off loaded would be Cork. Would that be three separate WLUs for each separate airport or would the principle apply, for example, as it does the transit passengers currently in the airports where it could be just one single WLU for all three? Will the WLU apply to an empty aircraft because sometimes it is necessary to position an empty aircraft at the end of a spire in these hub and bus systems and it mightn't for the whole standing time and it has to come back in the evening again, what's going to happen there? What's going to happen aircraft arriving for maintenance, one of the IAIEC members has established a significant maintenance operation in Shannon Airport for their global fleet, which is bringing quite a significant amount of business to Shannon and employment to the region.

Will the WLU apply on the basis of a loaded or unloaded cargo? Again that is a theme, that's a variation of theme of what happens a kilo. Will the WLUs be calculated for cargo on an aircraft separately and in addition to the calculation of passengers, we are not sure currently what happens there, but if for example one of the member's aircraft went technical and they couldn't get the

goods out, and they rolled up to a passenger aircraft, what happens the WLU in those circumstances?

This is a very important point. The Commission has undoubtedly been doing a lot of calculation, it has sought a lot of data from Aer Rianta, some of it I suspect wasn't in the public domain, so really we

are wondering how satisfied the Commission is with the data that has been supplied in regard to cargo. That it is of the necessary detail in terms of volume, variety, type and that it is comprehensive and relevant and transparent and really gives you the handle that you might need to fully calculate and therefore make a judgment on the impact of the proposed WLU and its ratio on the movement of goods.

Will the WLU apply to each kilo as it takes off and lands at each airport, different regime currently applies? And does the Commission believe it is fair the same WLU ratio and charges applied to a cargo self-handlers third party on the basis of a third party self-handler has the opportunity commercially to offset those charges with the people that use its services.

I think having asked those questions you might perhaps hopefully have a sense of why we found it difficult to come here today and give you any

precise details on what the impact of the WLU might be on the cost base for the members in Ireland. Now that's not to say we are not trying, we are trying and we are doing so on the basis the WLU includes landing charges, access fees or parking fees and any other regulation charge such as a security fee.

We don't know however the frequency of those charges as the questions we ask illustrate, and we don't know precisely all the circumstances that it will apply. Also this is the first time it must be said in fairness to you, that for the members it is an interesting exercise. You have put forward a revenue proposal, they are looking for costs that can only be based on charges, and within this large multinational organisations these charges don't often even come out of the same budgets, so sometimes you have to go very high up in an organisation to get that. Okay but we are trying, we would hope by the 26th to have something for you, but we are not sure. But what we can say is that as I say the preliminary -- the preliminary findings are certainly that it gives the opportunity for Aer Rianta to generate a lot more revenue from cargo than it has been. Now again time doesn't allow us to look at your statutory factors in more detail. Again we would hope to do that in our submission. We would, however, focus more briefly on the explanatory memorandum because it is so important to the whole thing.

The first point is in regard to WLUs for the three airports, depending on how they are applied, could disadvantage goods produced outside of Dublin. How?

Well again if you have a charge at the top, it maybe that the movers would have to introduce differential tariffs, and if the most expensive place was in Cork, because it was the place that was at the end of the line, then clearly that could come as a disadvantage from a Cork point of view. We are not saying that is what will happen, we are concerned about how we are going to work this.

In regard to the ART regulatory till for cargo, I think it is fair to say we haven't got a handle on that either and that is one of the things we are hoping would come out of this process. As a result of that we haven't sufficient information to evaluate the feasibility of a cargo tariff basket, again you put forward and requested people's views on that. Very hard to give a view on that with the information provided. We are a little confused about the possible option of a cargo sub cap in the statutory factors it is sort of suggested as a general possibility, but in the explanatory memorandum, it seems to be much more specific to the one that you proposed. So we are not clear to what that is. We have no data on the new book value on

the assets used exclusively for cargo, or indeed shared between cargo and passengers because obviously there has got to be some relativities there and we have no sense of what they might be.

ART's input to operation efficiency of cargo being minimal, and I mean this only minimal in the sense of relative to passenger aircraft movement, so we don't know what proportion of ART's cost is to be borne by cargo, we don't know the impact on cargo cost effectiveness of what you are proposing, and we don't know why before the reasonable 9% rate kicks it is proposed by way of the WLU to give an initial significant possible increase to ART, which in a sense to quote a U.K. analogy "is a bit of a double planning" or at least there is the possibility of a double planning.

Okay to conclude, a brief summary. The implications for the members of the draft determination are serious, but we really can't get a handle yet as to how serious. The Commissioner therefore is requested consider the cost effectiveness for cargo users of the WLU ratio and revenue proposals. The need for a specified allowable cargo CAPEX, especially for Dublin and Shannon, obviously it doesn't appear for Cork. The justification for this proposal given it will generate significantly more revenue from cargo or could. And placing outside

the WLU any cargo development involving dedicated buildings where the costs can be recovered by rents.

And in that regard just to briefly comment on one presentation from the Cork people this morning, I think again, their difficulty was getting their handle around where can development costs be recovered under the WLU both inside Cork and outside it. Okay so that is our presentation. We are very pleased to answer any questions you would like to ask.

MR. PRASFIKA: Okay thank you very much.  
And again thank you for staying within your allotted time. I just want to try to understand specifically your difficulties with our proposed framework of regulation. Is it with the entire yield approach, because as you know there are a number of ways you could deal with that issue. A typical way it is done is by expressing it as a per passenger yield, is that your problem? Is it with the yield approach or the fact that we have taken a yield approach using the work load unit, which, as you have pointed out, is simply a mechanism for including cargo and passengers within the yield?

MR. DARCY: We believe that the legislation requires the combination of the cargo and passengers.

MR. PRASFIKA: So you understand that's the --

MR. DARCY: Absolutely.

MR. PRASFIKA: So I guess maybe if I can just clarify, is you problem with the particular ratio?

MR. DARCY: The ratio, yes.

MR. PRASFIKA: Now presumably what you are suggesting is that for every one passenger we are talking about a larger amount of cargo which should be comparable?

MR. DARCY: Yes.

MR. PRASFIKA: So that is what -- now I understand that you are not in a position here to maybe tell us precisely what that should be, but perhaps if you could think about it in terms of your own costings, your own experience, make us a submission on that. Because you can understand, from our point of view, that the legislation requires us to take cargo into account. Now clearly the comparison between cargo and passengers is always going to be fraught with comparability problems, but if you can illuminate us on that, I think that would be very helpful.

Now the second point is you have spoken about what you see as the unjustified CAPEX as you put it especially for Dublin and Shannon, certainly in your written submission, if you could give us some detailed reasons for that. You have heard for submissions here earlier today that there is a need

for more CAPEX for cargo in Cork for example. So whatever details you can give us on that, we would be grateful.

Finally, is the Association proposing or stating a preference for some sort of a sub cap for cargo, is that what really you would like to meet you needs?

MR. DARCY: We are certainly interested in the principle, the difficulty as I say is in relation to getting a firm handle on how it might apply in practice.

MR. PRASFIKA: Well certainly the difficulty would be in the cost allocation in terms of those common facilities which are used for both. So maybe that is something you can turn your eye to in terms of your submission.

MR. DARCY: You mean in terms of a formula by which you might make a judgment as regards to the allocation -- relative allocation in those common facilities?

MR. PRASFIKA: Or even some help with a methodology as to how one would break down or allocate those costs.

MR. BURKE: I don't really have a question, but just in general terms in response to some of the requests for clarification that were raised. What I would

say is we are proposing a regime based on the WLU. That proposal as CP6 acknowledges would give Aer Rianta the freedom to propose and implement a corresponding price structure, okay. And I just think that you may have a view on whether or not that's appropriate or not, but I think it is important to actually point that out maybe for everybody's benefit that they are the maximum which are proposed, and then there is as it were the freedom that Aer Rianta have within those maxima in terms of coming up with actual prices for elements of service. That's just by way of clarification.

MR. GUIOMARD: If I could just make two comments which are kind of clarificatory and then as a question as well. In terms of working out the impact of the draft regimes we have proposed and any element of charges, whether it is landing or parking or takeoff or cargo, by using a yield approach there is a necessary indeterminacy there, because what that approach says is that you are pooling revenues, and they you are dividing them by passengers or work load units or something of the kind, and you are giving some -- quite a lot of discretion to the airport operator as to how they adjust the individual charges. Now the reason or one of the reasons at least that we have

favoured that approach is because if you look at Aer Rianta's submission to us last March, which is on our website, they have indicated that they propose a

major reorganisation of the present set of charge structures, which of course are very old and historic for various reasons now. So it is difficult for anybody to say really what Aer Rianta might choose to do, but presumably they would have to take account, and this arose as well this morning, they will have to take account as to what their customers are willing to respond to, so that would be some factor as well that they would have to allow for inside a particular structure of charges.

On the issue of work load unit, the point that your submission this afternoon stressed very much, clearly there is a balance to be struck there in how you weight cargo as against passenger. In a yield calculation in which passengers only appear, it has been criticism in Britain where this was the historic approach taken, that for airport operators, because cargo revenues went into the pool calculation, but didn't bump up the figure below the line, by which that was divided, it pushed the airport operator nearer to the cap in a way that wouldn't be true with the work load unit that we are proposing here. So unless the weighting between cargo passengers is such as for the airport operator to see a sufficient contribution from cargo through the airport contribution to its revenues, then switching that ratio of a passenger to one hundred kilos, too much in one direction, could lead to the

problem and the controversy in Britain where some airports might feel that simply cargo wasn't worth enough to it in terms of the charges for it to want to facilitate that as well as passengers moving through the airport. So there are several considerations to take into account there.

By way of question could I ask you maybe if you can say something further on the issue of capital expenditure for cargo facilities, which you also mentioned in your submission this afternoon? I understood you to say that the facilities that were there are in your estimation perfectly adequate for the medium term, or until what point exactly?

MR. FARRELL: That's not quite what we said, what we did say however, was that the facilities that we have, or those that we would have in the future are on a rent basis, and we are absorbing all of the cost of that rent. So depending on the size of the facility, the rent increase is proportional. So if we move to a new facility as the is proposed, we would expect that our rent would rise in accordance with that.

MR. GUIOMARD: So just to clarify. What I was saying is that these kind of capital expenditures you would expect to show up in your rent as it were, and not to be included in the till?

MR. DARCY: Yes. Sorry, can I just make two points. One, I must admit that I am at a loss to anticipate that Aer Rianta would not facilitate a movement of goods at any point, and I think that somewhat distinguishes the difference between the situation here and the U.K. At least to the extent that Aer Rianta's 100% shareholder is the State. Perhaps a different scenario will arise subsequent to any change of ownership.

The second point to come back to the WLU, and I appreciate your point about the scope, but what really does matter is that if a package comes into Dublin and it leaves Dublin for Shannon, and it leaves Shannon for Cork, what happens the WLU clock. Does it have to be reset at zero once it takes off from Dublin and then it can go up to ú4.96 per tonne again to Shannon and then goes back to zero again leaving Shannon. Now in fairness it seems to me that it is not unfair to ask that the Commission would have a view on that, rather than leaving it entirely to the discretion of the airport manager.

MR. BURKE: If I could just come back on that. I think the way that that question is asked suggests as it were that there is this charge, this price that is payable in respect of each discreet movement and I don't know that that captures the essence of what we are proposing. What we are proposing is a work load

unit based revenue maxima. Within that there will be a series of charges, but just to focus on that. The work load unit relates to each work load unit handled by each of the airports, so I hope that's clear. So what we are saying is the work load unit is the maximum revenue in respect of that amount of cargo or the passenger being handled at any of the three airports. But that is simply as I say designed to place a maxima, within that you will have a charging structure. Now you may have a view on what that should be, but I think it is important to make that distinction clear for the purposes of understanding the draft determination.

MR. PRASFIKA: Just to try to clarify that. The work load unit yield approach is not one which sets charges. It doesn't suggest every time a passenger leaves or arrives or the equivalent of cargo leaves or arrives at Dublin airport every time it has the same fee. It simply means that is the maximum that ART is allowed



which the economic climate is changing, although we didn't say this in the presentation, perhaps the two year review process, rather than full five year determination is perhaps something as well we might put into our final representation.

MR. PRASFIKA:                   Okay, thank you very much.  
                                  I guess we have the next  
submission at 3 o'clock.

(SHORT BREAK)

PRESENTATION WAS MADE ON BEHALF OF IMPACT BY MR.  
WALLY CARPENTER AS FOLLOWS:

MR. CARPENTER:                 My name is Wally  
                                  Carpenter, I am not  
Michael Landers as listed on the programme. I hold  
the chair of the IECA Impact Section Committee  
within Aer Rianta which is a trade union that  
represents middle management and I wish to make our  
oral submission.

I am reminded a little bit of somebody with a broken  
television, in the television trade they say the  
inside is the side where you look and watch the  
television and it is now broken, and I know an awful  
lot goes on inside the television, but I am not  
quite sure what it is, but I do know it is broken  
and perhaps you will forgive the negativity of what  
we are saying here today, because we really are  
going to be quite negative about things. We are not  
making any suggestions as to how it should be fixed.  
But we would like to know a little bit more about  
how the thing works, and we haven't quite seen that.

I want to look at some of the measurements used  
within the draft determination and quite a  
considerable amount of the measurement compares Aer  
Rianta airports and, in particular, Dublin airport

with a parcel of airports. Brussels, Copenhagen --  
I am trying to think of the rest -- are the two  
mains ones -- Glasgow, Standsted are two others. If  
we look at the cargo added work load unit in the  
year 2000 at Brussels, it would add an extra 6.3  
million work load units. So on that basis we  
consider that perhaps the work load unit, when you  
are using efficiency measurements it may not be  
quite the measurement that it is supposed to be  
within the context of the determination. An absolute  
measurement is a millimetre, is an inch, it's a  
pound per square inch, it is a 60 miles per hour. A  
work load unit is a relative measure in our opinion,  
and something that you measure relative performance

with year on year, within a same system rather than across airports, across different countries. If we take Brussels again, the law enforcement and security element of Brussels Airport which does not come under the airport authority consists of over 800 employees where they have to pick up the cost. Who picks up the cost of that at the airport? The authority doesn't pick up most of the cost of that, so how can you compare that to an Aer Rianta airport where the Airport Authority picks up most of the costs of the security element and the police element.

But if we go to Copenhagen we see that in the year 2000 4.2 million work load units will be added just

by adding a cargo to it. If we look at some of their other measures, the aeronautical revenue per passenger and I am quoting from a report issued by the transport research laboratory in this, and they are using SDRs, but we can make the comparison quite easy. If we look at the aeronautical revenue per passenger in Copenhagen, it is 4.33 SDRs versus an Aer Rianta 2.68 SDR. The SDR at the value that they were using there was about 1.11 pounds per SDR, Irish pounds. So in Copenhagen's case again we are saying is it valid to compare Copenhagen with Dublin Airport in this particular instant.

Again if we look at Copenhagen, and I have more information on Copenhagen, so I am going to concentrate on Copenhagen a little bit more. The passengers per employee, if we look at a report from 1998 show that they have a 20% efficiency advantage there, we are talking passenger per employee. But if we use a unit called an air transport unit, and that is a unit that has been devised after much research laboratory in the U.K. because they have found that work load units certainly are not a measure of the product of an airport, that airports measure a product in terms of cargo moved, passengers moved, movements and so on, that it is impossible to use a work load unit in today's circumstances. So they use an air transport unit, and when you measure air transport units per

employee, we see that the difference between Copenhagen and Aer Rianta, sorry these are Aer Rianta -- I am using on both the top on passengers per employee and ATUs per employee, I am using Aer Rianta figures rather than Dublin Airport. We will see that they have an advantage of only 4%, yet in the determination a measure of efficiency is used in a sense that Dublin Airport is 43% less efficient than Copenhagen, and on that basis we should be increasing our efficiency. What I am saying here is that again, I don't think that is a valid

comparison.

If we take some of the people who are involved in the academic study of airports, Doganis and Graham who probably did more work on work load units than anybody, and probably are responsible in the '70s for introducing work load units. When they set out to measure an airport's efficiency, they used 29 indicators. The transport research laboratory uses 34 indicators in its annual publication, the draft determination uses 6.

Performance indicators are analysis of inputs against outputs, and the inputs versus outputs in the determination have an emphasis on cost inputs and are anti-employment we believe. We are saying that the economic welfare is not best served by the highest -- sorry I will repeat that -- is economic

welfare not best served by the highest economic benefit to all the stakeholders? We believe the Aer Rianta airports, we offer one of the lowest costs to our customers in terms of aeronautical charges, the facts speak for themselves, we are consistently very much in the lower end of the scale of charges that are levied to our customers.

We believe that we should have effective employment for all employees. That doesn't mean that there should be any vat, that doesn't mean that we are flagger babbin, that means that employees are effective in their employment, and we believe that in Aer Rianta we do offer effective employment because we cover employment right across a scale of operations that they don't operate in Copenhagen, in Brussels and quite a considerable amount of airports, but because we operate them because we operate duty free shops, because we have to operate our own security services and so on, we incur a penalty if you only measure us and operating costs. We believe that we should offer a fair return to our shareholders.

We believe our stakeholders and we believe that the economic benefit is a benefit that should apply to all stakeholders. Just as a measure of the efficiency of how Aer Rianta is operating, if we look at the figures for 1990 to the year 2000, I am

not saying what the traffic has increased in that particular time, it has more than double, but at the same time the passenger -- I am sorry, I will repeat that -- at the same time employment numbers have grown from 2,032 to 2,413 at a time when the regulatory framework means that we must employ more people on health and safety. We must employ more people on the regulation imposed by licensing

arrangements, we must employ more people on airport policing and so on, purely to meet the requirements of the licensing regulation.

There is a typographical error in three places I think on the handout which you have there. Section 33D states that the contribution of the airport to the region in which it is best located, should be something that the Commission takes into place, that is the Act. The Commission goes on to state in the determination that the Commission notes that this factor is concerned with the regional contribution, not of two of the Aer Rianta airports, but rather of all three. We say that actions that hold down prices at Dublin, while allowing a 90% increase, for example at Cork and not in the spirit of Section 33D, if the express freight people were here in front of me. If as economic theory would tend to dictate the price of aeronautical charges goes up maybe not as high at 94%, but certainly it can go up fairly high in Cork, is DHL going to fly an aircraft

into Cork, or is DHL going to leave the aircraft at Dublin? We contend that the way the suggestion for price increases is anti-region and it is anti-Ireland because it doesn't promote the development of the regions by allowing the price to go up in one region and not allow for cross-subsidisation, we believe that the airports in the regions will suffer. That's all. Thank you very much.

MR. PRASFIKA: Okay thank you very much.

We just have a few questions for you. Just on the last point, if I take your point that you are advocating a cross subsidy from I take it Dublin to Cork and Shannon?

MR. CARPENTER: A 1% increase over the 9% allowable for Dublin would probably more than accurately allow for investment at both Cork and Shannon.

MR. PRASFIKA: I guess the problem we have is that in reading that in the context of our legislation which I think you have to read the sub-levels of 33 in light of the main objective which talks about facilitating cost effective airports, and so we would deem to be cost effective airports and the principle cross subsidy could be seen as going against our own statutory objective, if you would like to address that point.

MR. CARPENTER: That's not quite our interpretation, the letter

may say that, but certainly the spirit of the Section doesn't say that. I think if we take an example of the U.K. where three airports are owned in the London region by the BAA, Stansted would never have developed as it has and Stansted is one

of the airports that we hold up to Aer Rianta to say what it would be like. Standsted would never have developed as it has if an element of cross-subsidisation was not possible within the BAA.

MR. PRASFİKA: I think that we would take it as given that if an airport is cross-subsidised it is able to fund its operation out of something other than its own revenue stream, I think we can take it as given that that airport would grow. I guess the difficulty we have is seeing how under our statutory remit that that is an option available to us. That may be something that you would like to address in a written submission.

MR. CARPENTER: We will address some of those in our written submission.

MR. BURKE: Can I just ask you a question, you described I think in emphasis on cost being anti-employment. Maybe could you just expand and explain what you meant by that.

MR. CARPENTER: I think if you use measurements that measure

the cost to our users as a measure of efficiency, because surely that's where the economic benefit arises. The cost to our users to the airlines and to the passengers who use Irish airports. You measure their costs then you will find that the costs to them are amongst the lowest in Europe, and this is a better measure. I think in emphasis on operating costs, if you make comparisons against lots and lots of airports you will find that -- for instance the BAA had a depreciation policy that depreciates runways at up to 100 years. Now it is very very difficult to measure airports across different systems and across different countries. Doganis who has done most of the academic work in this regard said that is the most difficult part to measure. It is much much easier to measure than value that customers can get by using one airport as opposed to another.

MR. PRASFİKA: Maybe just in terms of the last question, would it be the position of Impact that the draft determination in terms of Dublin Airport, that the price cap proposed is much too low?

MR. CARPENTER: It seems quite low, if both the cost in capital that you suggest at 9% and the allowable increase at 9%, it doesn't seem to be technically high.

MR. PRASFİKA: Maybe, if you are not prepared to tell us today,

if you could inform us what you think an appropriate determination would be, we may find that very

helpful.

MR. CARPENTER: We will make a submission on that.

MR. PRASFIKA: Okay, I think we have no further questions. Thank you very much.

We have the Irish Hotels Federation next and we are told that they are prepared to make their presentation at 3:30 p.m. So perhaps we can take a few minutes before they are ready go.

(SHORT BREAK)

MR. PRASFIKA: They kindly said they would move forward, but they are not here yet, we expect them here shortly. We certainly expect them in the next 10 or 15 minutes, so if you can just bear with us until they arrive.

PRESENTATION WAS MADE ON BEHALF OF THE IRISH HOTEL FEDERATION BY MR. JOHN POWER AS FOLLOWS:

MR. PRASFIKA: We are going to proceed now with the Irish Hotels Federation, I would like to thank them for coming ahead of their scheduled time to facilitate us so that we can go forward. If you could maybe just state who you are, introduce yourself for the purposes of the record.

MR. POWER: I am John Power, Chief Executive of the Irish Hotels Federation. Again before I start, I want appreciate your facilitating me today, originally we were scheduled for tomorrow, but arranged to bring forward to today. Just to start by giving a brief background to the Irish Hotels Federation, it is the national organisation for the hotels and guesthouses throughout Ireland. We have a membership of over nine hundred members, employing over sixty thousand employees country wide. Over 80% of our properties are small properties with less than 40 bedrooms, and our objectives are to promote and defend interest of its members in successfully developing the tourist industry in Ireland.

Tourism in Ireland is a major driver in the Irish economy at this point in the country's development. Last year we had over 6.3 million people visiting

Ireland, an increase of -- or over doubling in the last ten years. It is important drive for economic growth as I mentioned and it contributes directly and indirectly to a large number of other sectors and their success. There is a target for tourism between now and 2006 to increase that number from over 6.3 million to about 8 million people. And the hotels and restaurants contribution to Ireland's GDP in 1999 was ú1.8 billion.

Ireland, because of its location as an island, it is a peripheral location and it lacks travel options. It doesn't have extensive rail or road network that you would have on a continent, which you have in Europe. And, in fact, over 70% of all tourists coming to Ireland come by air access and, therefore, the future growth and the maintenance and or the present level of activity tourism is to a large extent dependent on the competitiveness of air services, and air access is absolutely vital to the future and success of Irish tourism.

We have already made two submissions to the Commission, one back in March and the other in April and some of the key points of it are we favour the single till approach, we believe that charge prices, charged should be capped and determined by market forces alone and should have no relevance whatever to the actual capital expenditure and so forth. We

believe that they should be -- due to the monopoly style operation of the airport authorities, it needs an independent evaluation of the landing charge structure. We also believe that due an inclusive process of consultation should take place with the industry, because afterall the industry, that includes the airlines and representative bodies of the tourist industry and passenger representative body should be consulted because they are the ultimate customers of airports.

We challenge the requirement that operating costs not be directly recovered -- should not be directly recoverable from passengers, and we question the efficiency of the current system. We believe that being a competitive deregulated market that the airlines will move throughout the world and, in fact, certainly in this part of the world, throughout Europe for competitive reasons, for profitable reasons. It is pointless having airports if we to not have airlines operating into them.

The key issues for determination in this case are the areas of capital expenditure we believe, and the question of low cost access. We believe that the infrastructure of airports is as important to a

country such as Ireland as roads and buildings are. We believe, therefore, the ownership and responsibility for the air infrastructure should

clearly be with the State and the cost of capital investment should be borne by the State and not specifically by the users. So we do not agree that the system of passing back the cost of capital expenditure to the users is contrary to the interest of the country as a whole.

We believe that the level of capital expenditure should be responsive to the needs of customers. To the needs of customers as the markets evolve, if any high class, good quality access, yes they should have it. If the market requires low cost basic access, the option should be there to provide it if the market demands it.

Air access must be appropriate to the passenger needs, and therefore the importance of low cost access is so important, particularly in the area of low cost access contributing so much to international travel. The regional imperative is also important in Ireland, and the questions and raised in the drafts of paper which were circulated of Cork and Shannon having a 44% and 22% cost cap over Dublin just doesn't make sense in the context of a regional imperative.

We believe that a sub cap for off peak use of runways at Dublin Airport should be extended to Cork and Shannon and there should be a low cost alternative

at all airports, but particularly in Dublin.

The key issues for determination also extends to such issues of regionalisation, and the Government Policy for a balanced regional growth underlines the role of Cork and Shannon airports to act as catalysts for economic development in regional. In fact, today we also call on Minister for Public Enterprise to issue a direction which he is allowed to do under the Aviation Act to the Commission asking them to take into the account the needs and requirements of the development of tourism and the regional impact in the determination of the airport charges. Almost 80% of all access, air access into country in 2000 came through Dublin. There is a regional imperative international development plan to grow the regions at a faster rate. We believe that the air charges, or the airport charges should be an incentive to achieving these objectives, and the need is will to encourage a better regional distribution of air traffic through incentives. In fact, there are many incidents of airports which have zero landing charges where the local economy

benefits to such an extent that the local authorities and so forth wish to attract more activity into the area, and one of the attractions in these cases is by having a very low or zero landing charges. It is pointless having airports if the airlines do not use them, and that has got to be

the imperative, particularly in an era where transport is so important and particularly important, as I said earlier, in the tourist -- countries that are depending on tourism and a country which is an island.

The tourism industry as I said is vital to the Irish economy. Air access is vital to the Irish tourist industry and we believe that the Commission's determinations must ensure that we have an efficient air traffic transport which meets the passenger needs and also in that way we believe it contributes, not just the tourist industry, but to the economy in general.

We have already made a submission, I think these are the points which we wanted to put across today, and for any questions, we will try to answer them.

MR. PRASFIKA: Okay you very much for the submission, I think we have a few questions. As part of your submission you say that the cost of CAPEX should be borne by the State and not the passenger or airline?

MR. POWER: Yes.

MR. PRASFIKA: Can you point to anything in our legislation which allows us to make such a determination, to make a price determination based on State subsidy?

MR. POWER: In fact, we view the

capital expenditure on airports as part of the national infrastructure, and I would argue even within the legislation such as Sections 10 of the Act perhaps allows the Minister to issue a directive to take this into account in the determination of the costs. But with that said, this is a much bigger issue. This is a national issue on access to the country, it an issue for the development of tourism, a regional development, and perhaps needs a political initiative over and above which this Commission will have.

MR. PRASFIKA: You understand that the Minister has made no such directive under Section 10 to the Commission.

MR. POWER: That is so, and that is in fact what we call on the Minister to do today.

MR. PRASFIKA: And that therefore, could you point to anything else in the legislation which could possibly allow us to

make a determination which assumes the state subsidy for the CAPEX programme of Aer Rianta airports.

MR. POWER: Sorry, perhaps not in the context which you asked that question, but what I think that there is -- the whole question of the incentives of regional developments should be referred to, we believe, in a much stronger way within the draft report.

MR. PRASFIKA: Doesn't the draft report talk about cost effective airports where a determination is made to have due regard to the level of investment in airport facilities in line with requirements of commercial operations that are self-sustaining, profitable, allow a rate of return. Doesn't all the statutory language go in the other direction?

MR. POWER: Yes, well the language which you quoted there goes very much in the other direction, but in fact that is on the basis that airports are run for profitable purposes. Our case is that airports are our basic infrastructure and as infrastructure that their primary obligation is to support the activity and the economy and the society in the country, and not to be a means of providing profit on the infrastructure itself.

MR. PRASFIKA: I guess maybe the point I am trying to make is that the Commission is a statutory body, we operate under our own statute. I understand you may want to make the argument elsewhere that the statute should be different, but that is not the statute under which we operate. You talk about having non-peak charges, off peak charges in Cork and Shannon. You may wish to make in your next submission to us, to identify those peak periods in Cork and Shannon, whether the runway is at, near or at maximum capacity? Does it

not make sense only to have off peak charges if you have peaks?

MR. POWER: The need here is to incentivise traffic to run right throughout the day into the infrastructure, and how we believe it applies, and many types of services where there are incentives to operate at slack times. It applies in the industry which I represent, there are times of the year, times of week where you have incentive pricing to incentivise the take up of capacity in off-peak periods, and there is no reason why it shouldn't apply in the airport sector.

MR. PRASFIKA: Well particular, I am just advising you that in terms of advocating non-peak periods in Cork and Shannon, if you can inform the Commission of those periods

when there are peaks in terms of runway, when it is at or near capacity.

MR. POWER: It was a general statement because it made a reference specifically for Dublin. Shannon and Cork needs incentivisation for traffic equally as much as Dublin, and in fact we would take issue with the -- I know it is a purely arithmetic calculation that sets Cork's rate at 44% higher than Dublin, Shannon at 22% at maximum level, that flies in the face of any national regional policy.

MR. PRASFIKA: Can you just clarify for me on that point. Are you advocating that cross-subsidy, the operation of Dublin to Cork and Shannon?

MR. POWER: It is not a question of subsidy here, it is an organisation, it is a body which runs the infrastructure and I think it has got to be looked at in the context of the region and the regional development. Okay you will accept that the Minister hasn't issued the directive to take regional development into your brief, but if you think that airports in Cork and Shannon, without having a regional imperative, I think it divides the reality. They have their fundamental to the local regions.

MR. PRASFIKA: Doesn't Dublin have regional imperatives?

MR. POWER: Absolutely.

MR. PRASFIKA: Well, if you are subsidising Cork and Shannon on a basis of revenue from Dublin, aren't you simply having a negative impact in one region, even though you may have a positive impact in another region.

MR. POWER: But you should have additional economies of scale in Dublin which would facilitate you to do that. The whole taxation system is shifting from one section to another. It takes into account a need of a society -- one section of society supporting

another section. I think the same applies to airports.

MR. PRASFIKA: Can you point to anything in our legislation which allows us to take into account a regional redistribution role?

MR. POWER: Is there anything to prevent you from doing this?

MR. PRASFIKA: Well if that's your answer. Any other questions?

MR. BURKE: Yes, it is just that I have two points. I think

it is actually important because we are a statutory body we have to be expressing we have the authority. So the fact that the legislation does not say it does not mean that we can do something, no matter how desirable it is, I think that is an important point. I understand that your organisation issued a press release this afternoon describing CB6 as absurd. Now, in your presentation I don't see that level of criticism, so I just want to be clear on what your position is. I understand your criticisms, but I am just trying to reconcile the language.

MR. POWER: No in fact the method of calculating the charges we believe to be absurd, and in fact the thrust of our

press release this evening is calling on the Minister to issue a direction on Section 10 of that Act.

MR. PRASFIKA: Could you just clarify for us what the problem is with the method that we have calculated charges?

MR. POWER: Our problem is that we take a view in the interest of the tourist industry and regional spread of tourism in this country, and as such we express a view with that objective, and we believe that the method of calculating the charges used is not going to benefit tourism and in fact it is going to damage tourism if in fact the airports were to go along and charges us maximum level of charges.

MR. PRASFIKA: Okay, well I can understand your point that you would like charges lower to facilitate tourism, but if you could inform us of the particular method of logical errors that we have made I think we would find that helpful in terms of moving forward to the final determination.

MR. POWER: Well I can't because, in fact, operating within the format which you are using there, which may well be based on the legislation, you are the experts on that and you have gone down that route. What we are saying is that the fundamental format does not reflect the requirements of the Irish tourist

industry.

MR. PRASFIKA: Okay, I think we have no further questions. Thank you very much for coming early.

I think that is it for today's events. We will be starting tomorrow again at 10 o'clock. Thank you.

THE MEETING WAS THEN ADJOURNED UNTIL 10:00 ON THE 8TH JULY 2001

