

26 April 2002



IRISH AVIATION AUTHORITY
GDARAS EITLIÓCHTA NA KEIRGANN

Ms Anne Moloney
Deputy Head of Economic Affairs
Commission for Aviation Regulation
36 Upper Mount Street
Dublin 2

**Consultation Paper on the Implementation of the Levy pursuant to
Section 23 of the Aviation Regulation Act, 2001
Commission Paper CP4/2002**

Dear Ms Moloney

I refer to the above paper and to the Commission's request for submissions and now submit below the Authority's response.

The Commission will be aware that the vast majority of the Authority's airline customers are experiencing very difficult economic circumstances at present and that the Authority has taken steps to mitigate the impact of the economic downturn on its customers. The Authority is confident that it has the support of the Commission in this endeavour and that the Commission, likewise, would, itself, wish to support such steps by ensuring that it provides a cost-effective regulatory function that offers value-for-money for the airlines.

Income and Expenditure of the Commission from 27 February to 31 December 2001

The Authority notes that the Commission's financial statements will be subject to audit by the Controller and Auditor General and that the Commission proposes to levy its 2001 operating costs and expenses based on the draft accounts for the period to 31 December 2001, with any variation in the final audited accounts to be reflected in the calculation of the levy for the year ending 31 December 2002. The Authority agrees that this is a reasonable approach.

Suggested Allocations of 2001 Expenditure to the Commission's Activities

The Authority agrees with the Commission's general principle that the levy be collected from each sector of the aviation industry on the basis of the proportion of the Commission's costs incurred in respect of its responsibilities relating to that sector. Costs should be recovered directly from the sector to which they relate. The Authority believes that the other methods referred to, such as a fee based on a percentage of turnover or fee per passenger, to be inappropriate.

The Authority strongly agrees with the Commission's proposal that where a cost relates to a specific cost centre then it should be allocated to that cost centre. The Authority also agrees that costs which are general in nature should be recovered in accordance with the percentage of Commission time spent working on each cost centre.

The Authority notes the illustration of the division of work within the Commission and in particular that 15% of the Commission's time during 2001 was devoted to Aviation Terminal Services Charges. The Authority also notes that similar percentages will be estimated each year and will be used for the allocation of costs on an annual basis in the future. The Authority believes that it is reasonable that the percentage calculation be subject to annual review, audit by the Controller and Auditor General and adjustment as necessary.

The Authority would also strongly support the Commission's proposal that professional fees be allocated directly to the cost centre to which they relate. In regard to legal costs, including the possible award of damages arising from litigation, the Authority's strong view is that these costs should be charged or credited to the undertakings which are party to the legal proceedings.

Undertakings Liable to Pay and the Level of their Liability – Regulation of Aviation Terminal Services Charges

The Authority believes that all of the Commission's levy should be charged to the Authority's terminal customers at the State airports at Cork, Dublin and Shannon.

The Authority agrees with the Commission's proposal that the levy be recovered through the Authority's cost recovery process. This would be more cost-effective for the Authority's terminal customers. This mechanism relieves the Commission of the costs of establishing a billing and collection system for the recovery of the Commission's levy. These costs would include staffing costs or costs of outsourcing this activity, credit control, credit risk including the costs of potential bad debts, and the costs associated with financing the related working capital requirements. Some indication of the extent of billing activity involved is given by the fact that in 2001 almost 3,500 invoices were issued to the Authority's 300 terminal customers.

The Authority would agree with the Commission's proposal that the allocation of terminal costs should be such that the heavier users by weight of terminal services would pay more than the lighter users as this would be consistent with our present charging policy.

Projected Costs of the Commission for the Year 2002

The Authority notes that the Commission proposes that the initial levy for 2001 will also cover the estimated operating costs and expenses for some or all of 2002. The Authority would like to discuss this in further detail with Commission officials when an estimate of the levy appropriate to the Authority has been calculated.

Proposed Payment Terms

The Authority would support the Commission's proposal for 30 calendar days credit and would suggest monthly billing in arrears. The Authority believes the rate of interest on unpaid levies at 8% per annum to be very high and would recommend instead the one month Euribor currently 3.3%.

The Authority would support the Commission's proposal that payments be made electronically to the Commission's bank account.

I would be pleased to discuss any of the above further with you and your colleagues if you believe that this would be useful.

Yours sincerely

Denis J Daly
Director Finance and Administration