



DUBLIN AIRPORT
Response to Consultation on the Commission for Aviation Regulation's Strategic Plan 2017-
2019
24 March 2017

Executive Summary

Dublin Airport welcomes the opportunity to respond to this public consultation on the Commission for Aviation Regulation's (CAR) proposed strategic plan for the period 2017 to 2019 (CP2/2017). As the outcome of the Department of Transport, Tourism and Sport's (DTTaS) review of the regulatory system for the aviation sector is not yet published we expect the development of the strategic plan will be an on-going process rather than a singular task. Nevertheless, CAR has set out five overarching strategic goals on which it proposes to focus over the next three years:

1. Efficient, high-quality airport services;
2. Safe and financially-robust airlines based in Ireland and ground-handlers at the three state airports;
3. Financially strong Irish travel agents and tour operators;
4. A robust framework to enforce passenger rights in all Irish airports; and
5. A regulatory framework that represents best international practice.

Any strategic plan is a living document and needs on-going review to ensure its continuing relevance and ability to direct the organisation. There is scope therefore for the refinement of the strategic plan over time and consideration could be given to the incorporation of elements of other regulator's strategic plans where they are deemed suitable to the aviation sector.

Dublin Airport supports the broad thrust of the proposed strategic plan, in particular the importance placed on the provision of efficient, high quality airport services. To achieve this goal, CAR has set objectives to improve processes for the next pricing review - to enhance consultation, increase focus on the end-users of the airport (passengers) and ensure the regulatory system can respond adequately to changing circumstances in the aviation market in the intra-Determination period. Notwithstanding the importance of the setting of a price cap under the current regulatory system, CAR should consider whether other objectives or actions, outside of the price cap, can assist the delivery of efficient high quality airport services. In this respect, a commitment to objective assessment of alternative means of meeting this goal should be made.

Dublin Airport is aware that a number of regulated sectors in the UK (e.g., water, energy) have introduced new measures to improve consultation during price control periods with the aim of better understanding end-user needs and ensuring they are incorporated in company business plans. In the context of regulation of airport charges, the end-user is the passenger. As the issue of how the passenger is represented in the regulatory process has been contentious in the past, we welcome this initiative to develop a more formal framework for the understanding and reflection of passenger requirements in the regulatory process. We anticipate that we will engage extensively with CAR and other parties to develop such a framework, so that it can be up and running in good time before the next price review for 2020-2014.

Additionally, we recognise CAR has already begun putting more emphasis on ensuring regulatory system flexibility through the introduction of a new process in 2016 which enables the regulated entity to apply for a supplementary capex allowance, within a determination period¹. This process is both welcome and necessary to ensure that the appropriate infrastructure to meet demand and

¹ In addition to the flexibility, in relation to the utilisation of capital investment allowance, introduced in the 2009 Determination and extended in the 2014 Determination.

provide incremental benefits to end-users can be facilitated within the existing regulatory period. It supports CAR's statutory objective *"to facilitate the efficient and economic development of Dublin Airport which meets the requirements of current and prospective users of Dublin Airport"*, and will shortly be initiated by Dublin Airport. We expect that any lessons learned from this process will inform the design of 'constructive engagement' on airport charges and new infrastructure.

In the context of promoting competition and facilitating new entrants to the market, we believe the strategy plan should commit to declaration of the maximum capacity of infrastructure within the bounds of safe operation. Given current infrastructure and the pattern of demand at the airport, the restriction of capacity provides a tool to reduce the level of competition between airlines at the airport which is inimical to cost efficient airport services.

We would welcome a more explicit commitment by CAR to support growth in the aviation sector particularly given the long term pattern of growth in the industry and the goals set out in the National Aviation Plan (NAP) to facilitate the development of the industry. We would also welcome the development of stakeholder engagement plans by CAR for other regulatory bodies with powers to implement decisions which impact on the operation of the airport. This would be beneficial in ensuring that all regulatory decisions are aligned on the provision of efficient, high quality airport services.

While the strategic goals refer to the financial strength of airlines, travel agents and tour operators, they do not refer to the financial strength of the airport. The provision of efficient high quality airport services in a cost-effective manner is dependent on Dublin Airport's ability to raise debt finance for the necessary investments to deliver the required services. The ability to raise finance in an efficient manner (sustainable rates and flexible terms) is largely determined by the financial strength of the airport and we would, therefore, welcome a more explicit recognition of CAR's statutory objective with regard to the financial viability of Dublin Airport within the proposed strategic plan.

On goals 2 and 4 we believe there is scope to set additional actions for the period under consideration, particularly in relation to the efficiency and safety of the provision of ground-handling services and the reduction at source of core issues resulting in passenger rights complaints.

Finally, we recognise the focus that CAR has placed on ensuring that their internal processes reflect best international regulatory practice and are fit for purpose. Given the overall thrust of seeking to increase efficiency across the aviation sector, a commitment by CAR to assess its own cost efficiency and to strive for a reducing unitary cost burden of regulation would be welcome.

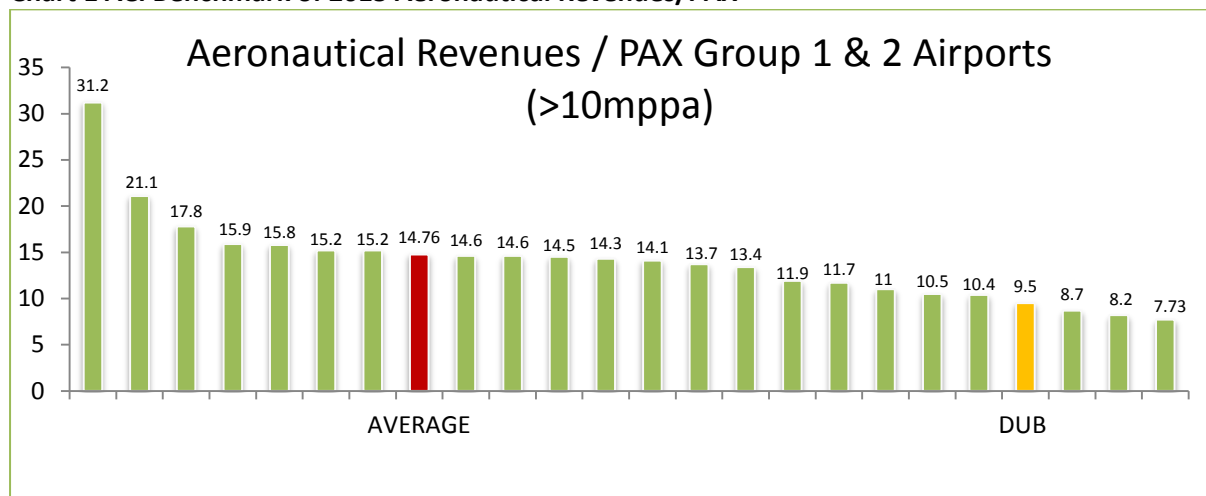
In summary, the development of a strategic plan for the regulator is a welcome initiative from CAR and we look forward to seeing it come to fruition over the coming years.

Efficient, high-quality airport services

The goal for Dublin Airport is the provision of efficient, high-quality airport services in a safe and secure manner, to meet the needs of our existing customers and new entrants to the Dublin market. We therefore welcome the pre-eminence given to this goal in the CAR strategic plan.

ACI Europe has issued benchmarking information on airport charges for Category 1 and 2 airports² which is shown in Charts 1 (Category 1 + Category 2 Airports) and 2 (Category 1 Airports only). As Chart 1 demonstrates, Dublin Airport is in the lowest quintile of charges for airports above 10m annual passengers, with charges 36% below the average of €14.76 per passenger. Removing the obvious outlier airport from the dataset (charges of €31.2 per pax), reduces the average charge to €13.2, with Dublin Airport charges 28% below the average.

Chart 1 ACI Benchmark of 2015 Aeronautical Revenues/PAX



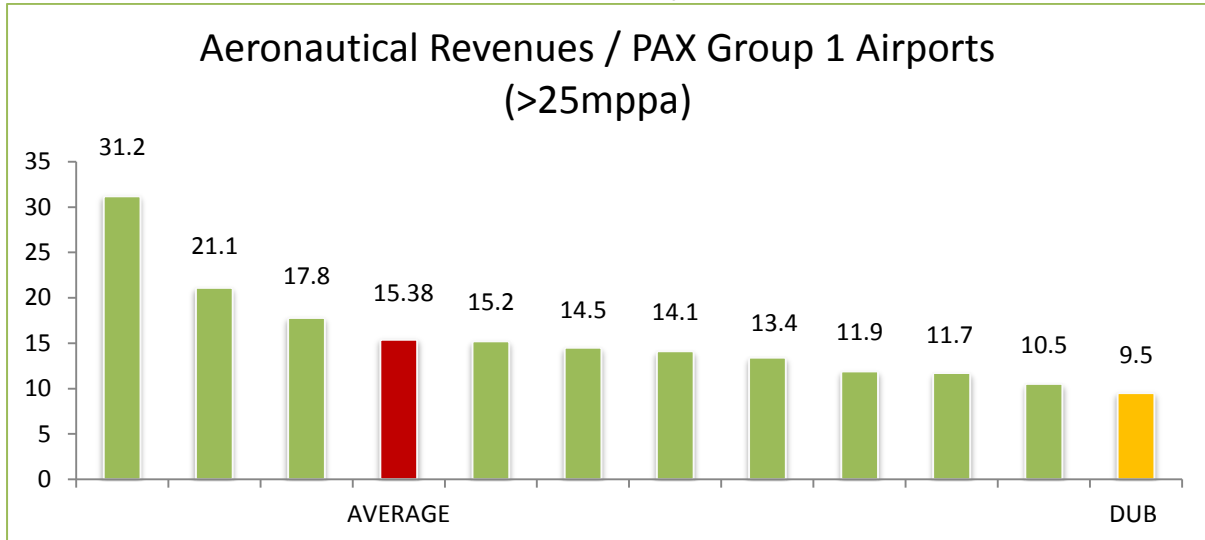
Source: Airports Council International (ACI) Key Performance Indicator Project

Individual airport charges cannot be shown for reasons of commercial sensitivity to the airports concerned. Other airports in the table are Athens, Stockholm Arlanda, Amsterdam Schiphol, Brussels, Copenhagen, Frankfurt, Oslo, Gatwick, Heathrow, Lisbon, Milan Malpensa, Munich, Vienna, Zurich, Rome Airports, Istanbul Ataturk, Paris Airports, Barcelona, Madrid, Malaga, Palma Mallorca

In 2015 Dublin Airport served in excess of 25 million passengers thus becoming a Group 1 Airport, per the ACI classification. Chart 2 focuses on Group 1 Airports only. Dublin Airport is the lowest cost airport with charges 32% lower than the average of €15.38 per pax. Again, removing the obvious outlier airport from the dataset (charges of €31.2 per pax), reduces the average charge to €13.38, with Dublin Airport charges 29% below the average.

² Category 1 Airports have 25m+ annual passengers; Category 2 Airports have 10m-25m annual passengers.

Chart 2 ACI Benchmark of 2015 Aeronautical Revenues/PAX



Source: Airports Council International (ACI) Key Performance Indicator Project

Individual airport charges cannot be shown for reasons of commercial sensitivity to the airports concerned

The cost efficiency of Dublin Airport is amply demonstrated through being the least cost Group 1 Airport, and also through being substantially below the average cost of all airports above 10m annual pax. We believe therefore that more significant consideration to the service quality required by both airlines and pax should be given, through ensuring that the capital and opex required for same is adequately provided for. In this respect, continuously lowering airport charges may result in compromising the level of quality in the service provided.

Although there is currently a service quality regime in place at Dublin, we believe that there may be scope to extend and/or amend the current set of metrics, in order to better reflect the full spectrum of factors which are valued by both airlines and passengers. To ensure service quality is comprehensively addressed and given appropriate weighting in determining the regulatory settlement, we believe it should be the central focus of consultation to inform the next price cap determination.

Setting a price cap

The first objective set in relation to the goal of efficient high quality airport services is to set a price cap for Dublin Airport for the next regulatory period 2020-2024, which emulates as closely as possible a competitive outcome. CAR foresees that the achievement of this objective will be facilitated through extensive consultation between the airport and users within the regulatory determination process and through the regulation and monitoring of cost-efficient capital projects for which allowance is made. In the current regulatory framework the setting of a price cap which correctly balances cost efficiency and service quality is the means used to target provision of efficient, high quality airport services. However, with the DTTaS review of the regulation of airport charges not yet concluded, and given the call for flexibility in relation to commercial agreements within the agreed principles of the airport charges work stream of the NCADF³, we believe that settling on the setting of the price cap as the only regulatory tool for consideration, is premature. We believe CAR should include an objective to objectively assess alternative proposals to the setting of a price cap as a means to deliver the overall goal of efficient, high quality airport services, if and when any such proposals are made.

³ National Civil Aviation Development Forum

Dublin Airport supports an objective that ensures any future price cap's emulate competitive market outcomes. This would facilitate the achievement of CAR's overall goal, 'efficient, high-quality airport services', and we provide the following feedback on how this might usefully be pursued:

- As the current period shows, setting a price cap in advance for a specific 5 year period, appropriate to the conditions that will pertain throughout, is a difficult task. In the current period, passenger growth has exceeded forecasts, which has given rise to a considerable level of capacity constraint at the airport - circumstances to which the current price cap regime is ill equipped to respond. Therefore the recognition by CAR that there is a need to improve the flexibility of the current regulatory framework is welcomed and supported by Dublin Airport, particularly if it can facilitate rapid response to changing industry conditions so as to avoid undue reliance on the (necessarily) protracted process of Interim Review of regulatory determinations.
- Market conditions in the short to medium term could be significantly altered from those currently pertaining, particularly with regard to Brexit and the impact it may have on levels of demand from the UK, and also on the provision of aviation services on UK-EU routes. 36% of Dublin Airport's traffic is to/from UK⁴, which is a very significant portion of traffic at risk over the next period. We would therefore contend that the importance of being up to date and informed on the likely impact of Brexit on aviation should be reflected in CAR's Strategic Plan 2017-2019.
- In practice, the setting of a price cap for the regulated entity is informed by the regulator undertaking a number of benchmarking exercises in order to verify the robustness of assumptions within forecasts. Dublin Airport would encourage CAR to ensure benchmarking data is relevant and robust i.e., adjusted, as required, to ensure the direct comparability to Dublin Airport.

We note the reference in CP2/2017, that Ryanair's airport and handling charges for the year ended 31 March 2016 amounted to 13% of operating costs. It is unclear whether the provision of this information is intended to act as a benchmark for assessing cost efficiency of aeronautical services. Firstly, this cost category includes both fees paid to airport management companies and to ground-handlers⁵ and, without a breakdown between these two, little useful information is gleaned with regard to the proportion of airport charges to overall costs. This is particularly relevant as Ryanair's business model is to self-handle at some airports (including Dublin) while contracting ground-handling services from third parties at others. Even if the costs had been adjusted to reflect only those fees paid to airport management companies, the 13% figure (as adjusted) would be the average for all airports at which Ryanair operates; the only direct relevance to Dublin would be to assess whether Dublin fell above or below this average charge. Finally, total airline operating costs are heavily influenced by the price of oil and it should be noted that the price of oil was particularly low during 2016⁶. Given the variability in the price of fuel, examining the proportional contribution of a single cost category to total operating costs at a single point in time provides little basis to assess the efficiency of costs in that category. We address these issues as they highlight the importance of data disaggregation, robust benchmarking and

⁴ 2016 actual.

⁵ Ground-handlers provide a range of services such as; check-in, baggage handling/tracing, flight dispatch, bussing, crew transport, aircraft servicing, aircraft towing etc. and fees paid to the ground-handler will reflect the individual commercial agreement reached between the airline and the ground-handler.

⁶ In 2016 the price of a barrel of crude oil varied between \$29 and \$57; in 2013 the price range was \$98 - \$119, approximately double the price pertaining three years later.

consideration of context, in order for appropriate assessment of the cost-efficiency of Dublin Airport to be made.

- As Dublin Airport is a highly capital intensive business, being allocated an appropriate allowance to support market demand is essential. Additionally, being able to have flexibility within allowances to accommodate changing circumstances and infrastructure needs has proved beneficial to ensuring projects absolutely necessary under current market conditions can be delivered with a high level of regulatory certainty on remuneration. However, cost estimates for projects are only provisional until tendered. Additionally the price cap only gets adjusted for consumer price inflation which does not necessarily align with construction price inflation which we have seen over the last two years. With rates trending at 5/6% p.a. over the last two years this opens up a large gap between the allowances made for efficient capex and the actual spend level which represents such efficiency. We believe, therefore, that there is further scope to improve remuneration of efficiently-incurred capital within the price cap.

Increase stakeholder Involvement

CAR's second objective is to *"increase stakeholder involvement in decision making"* through increased level of consultation on airport charges and new infrastructure and engaging the passenger better in the regulatory process.

We are considering the guidelines on airport charges consultation which issued from the Thessaloniki forum in December 2016 and how they can be incorporated into the current annual consultation on airport charges at Dublin Airport. We expect to work with CAR over the coming months on this issue.

We are also aware of CAR's view that consultation on new infrastructure could be improved and look forward to constructive examination of this issue in advance of the next regulatory process. In this regard, the upcoming supplementary capex consultation process will provide useful insight into the approach of all parties to the provision of new infrastructure and their views of efficiency and remuneration of same. While improved consultation processes may be expected to reduce the conflictual nature of past capital investment consultations and reduce regulatory gaming (or at least the scope for same), the risk remains that consultation may only be capable of delivering compromise and not necessarily bring efficiency. As such, consultation may not be sufficient to ensure efficiency of capital expenditure and further assessment work may be required of CAR, outside of consultation alone, to facilitate the provision of efficient, high-quality airport services.

Additionally, we welcome CAR's commitment to better engage the passenger in the regulatory process. As the end-user of the services provided by Dublin Airport, the satisfaction of passengers is a primary concern for us, and it is important that the provision of efficient, high quality airport services incorporates the factors which are valued by passengers as well as airlines. We anticipate working closely with CAR to design and implement new mechanisms within the regulatory process to ensure the needs and views of passengers are better reflected in the Final Determination.

Promote Competition and Facilitate New Entry

Objective 3 is to *"Promote competition and facilitate new entry into relevant markets"* and is related to the slot coordination process in which CAR has a significant role through the declaration of slot-coordination parameters, appointment of the independent slot-coordinator, enforcement of sanctions (in conjunction with the independent slot-coordinator) for off-slot operations and through the approval of Access to Installation (ATI) fees charged to ground-handlers.

Dublin Airport contends that, as the competent authority for the declaration of airport capacity as per EEC 95/93, CAR must actively commit to an objective of enabling capacity development and seeking to declare **increased** capacity – these are precursors to the promotion of competition and facilitation of new entrants which are referenced.

Given current capacity constraints at Dublin Airport, the role of the independent slot coordinator is of particular importance in both the facilitation of growth and the smooth operation of the airport. In 2016/2017, CAR undertook a tender process for the appointment of an independent slot coordinator for a future fixed term, with the Slot Coordination Committee of Dublin Airport allowed to input into the tender design and facilitated in having a pre-view of the offerings of the short-listed bidders. We welcome the approach taken by CAR in this process and believe it supported confidence in the technical capability of the provider of this critical service and their independence, and would support the extension of such an approach to other tenders undertaken by CAR in relation to Dublin Airport.

The independent slot coordinator has powers to impose sanctions on airlines where they operate off-slot. Sanctions should be utilised where off-slot operations have a demonstrable negative effect on the efficiency of operation for the airport as a whole i.e., for other airlines, ground-handlers or the airport management company. Where an off-slot operation has no demonstrable negative impact on other parties then the benefit of imposing sanctions is questionable.

With regard to the factors which CAR considers in the setting of Access to Installation (ATI fees) we believe that they provide clarity in the process and are generally well understood by all relevant parties. In recent experience, the process of application, consultation on, and approval of ATI fees has worked well. If CAR intends to review or change the current process we would be happy to input into this work.

Additional Objectives

There are two further issues which we believe are relevant to this area and for which we would welcome the setting of an explicit objective by CAR:

i) A commitment to support growth

There has been a consistent pattern of growth in the aviation industry over decades, with deviation from this trend tending to be short-term in nature e.g. during periods of economic recession. The regulatory model needs to take account of this long-term growth trend in the industry and provide an efficient mechanism for delivery of capacity to meet the long-term trend. Although CP2/2017 references the need to ensure that capacity keeps pace with demand and can be financed, the only reference to growing demand is in terms of incorporating “sufficient flexibility in the regulatory model to deal with uncertain demand for services and infrastructure”. We consider that a greater commitment to supporting growth is required particularly given CAR’s recognition of Dublin Airport’s position as the fastest growing Group 1⁷ airport in Europe. An alternative which is occasionally posited to ensure capacity keeps pace with demand is through the implementation of peak-pricing. However, peak pricing suppresses growth by pricing demand away rather than seeking to satisfy the demand, and is inconsistent with the goals of the National Aviation Policy to support the development and growth of the aviation sector. Peak pricing has been the subject of consultation on a number of occasions in the past and has gained no support from either Dublin Airport or airlines.

⁷ Airports with annual passenger numbers in excess of 25 million.

Our view of peak pricing remains that it is an inappropriate and inadequate approach to ensuring capacity keeps pace with demand.

ii) Consideration of how the role of other regulatory authorities interact with economic regulation

There are a number of regulatory bodies, in addition to CAR, with powers to impose requirements (behavioural or financial) on the design and/or operation of Dublin Airport. Such bodies currently include Fingal County Council, Irish Water, EASA⁸, the NCASC⁹ and the IAA¹⁰ (as safety regulator). Additionally, new powers will be given to the IAA, under EU Regulation 598/2014, as the competent authority in respect of the regulation of airport and aviation noise which may include powers to introduce new noise related charges and/or require the amendment of the current structure of airport charges. Given the number of bodies with a regulatory role in relation to the airport, it is important that the full range of regulatory interventions and how they may impact on the provision of efficient, high quality airport services is considered by CAR. In developing the stakeholder plans referenced in Section 9 of the strategic plan, we would welcome such plans being put in place with these other regulatory bodies. We believe this will be particularly important in the case of the IAA given its roles both in relation to safety and level of operations permitted at the airport and its new role in relation to environmental noise which may directly interact with any price cap set for the airport (if powers to introduce noise-related charges or to amend charging structures are granted).

Given the complexity of the regulatory environment in which Dublin Airport operates, and the ever-changing nature of that environment, consideration should be given to how the current determination process can be improved, so as to provide sufficient flexibility to respond to such changes. For example, DTTaS has recently consulted on the transfer of the IAA's costs to audit the security screening service at Dublin Airport. Although no decision has issued as yet from that consultation, there is potential for such costs to be transferred to Dublin Airport. The current price cap contains no mechanism to allow the recovery of such regulatory-imposed unanticipated additional costs, a shortcoming which we consider should be addressed by CAR for future periods.

Safe and financially-robust Airlines based in Ireland and Ground-handlers at the three state airports

CAR has included an objective of having an efficient licencing process for both airlines and ground-handlers with emphasis on ensuring that operators are financially sound in order for them to carry out their functions. We contend that an equivalent duty must be considered with regard to airports, to ensure that we can finance the functions that are required of us by airlines, passengers and other customers of our services. We consider this to be a significant omission from the strategic plan particularly in the context of designing a best practice regulatory system for the future. Indeed, this is more directly relevant as CAR can directly influence this in a way that it cannot influence the financial robustness of other parts of the industry.

In addition to having an efficient licencing process, we consider there is scope for further objectives in relation to ground-handling. Firstly, in line with other parts of the aviation network, consideration should be given to how efficiency in the provision of ground-handling services could be improved.

⁸ European Aviation Safety Agency

⁹ National Civil Aviation Security Committee

¹⁰ Irish Aviation Authority

Given that the two largest airlines at Dublin are self-handling, thus leaving a smaller pool of customers for ground-handling services from third party handlers than might be expected, given the size of the airport, the sharing of resources between ground-handlers should be encouraged. This could be achieved through the licencing process itself or through the introduction of some system of incentives for improved efficiency by ground-handlers.

The safety of operations at the airport must be paramount. In this respect we appreciate the recent initiative taken by CAR to understand the context in which safety regulations are implemented at the airport, and the limited scope we have to enforce necessary safety behaviours on ground-handlers. We would suggest, given the importance of this area, that a specific objective be included in the plan to assess whether or how the licencing process could be utilised to underpin safety at the airport.

Financially strong Irish travel agents and tour operators;

Confidence in the services provided in the end-to-end travel process is an important consideration for passengers, and may influence their overall willingness to travel and hence demand for aviation services. In this respect, Dublin Airport supports CAR's strategic goal of ensuring the financial strength of Irish travel agents and tour operators as part of the licencing process of these bodies.

A robust framework to enforce passenger rights in all Irish airports

Similarly, confidence in the system of protection (and enforcement) of passenger rights may influence the willingness to travel of the general public. In this respect, we consider that the strategic goal set by CAR in this area might be usefully extended by a commitment to pro-actively engage with the industry to address the source of complaints. Although the efficient enforcement of passenger rights when a complaint is substantiated is of paramount importance, we believe there is scope to focus on reduction-at-source as well as reacting efficiently to those complaints.

A regulatory framework that represents best international practice

We welcome the objectives that CAR has set to meet its goal of a regulatory framework that represents best international practice. In the context of the dynamic nature of the industry, and the current growth trend at Dublin Airport, all parties in the regulatory context need to accelerate their processes, to the extent that this is possible – be that information provision, tender design and evaluation, studies etc. This could be best achieved by having a framework more in line with best practice.

Finally, the broad thrust of the strategic plan is the facilitation of efficient outcomes across the entirety of the aviation industry network. In this regard, it would be very much in line with the goals for the overall network, if the cost efficiency of the provision of the regulatory framework was also explicitly addressed. We would welcome a commitment by CAR to assess its own cost efficiency and to commit to flat or reducing per unit levies in line with the efficiency gains being sought across the network.