

Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

bmi

Dear Sir/Madam,

Response to Airport Charges Draft Decision paper

Many thanks for providing bmi with the opportunity to comment on the draft determination for 2010-14. Our comments thereon are contained in the letter below.

Overview

The economic conditions that have prevailed since the advent of the credit crisis have seen an unprecedented decline in passenger traffic that has significantly & adversely hit revenues for both airlines & airports.

As airlines, we pass on to the passenger any cost increase that comes out of DAA pricing. So against the backdrop of a disastrous economic situation, bmi has had to contend with the following:

- DAA pricing to the cap (despite extensive debate & well reasoned rationale from ourselves not to)
- DAA has benefited from the numerous cost reduction programmes they have initiated, but not a euro cent of this has been passed back to the airlines.
- The airlines have had to contend with a CPI increase of 4% levied by the DAA (as they are entitled to per CAR's regulatory settlement), despite deflation manifesting itself in most sectors of the economy this year. This is another gain that DAA has not passed back to the airlines.
- It was intimated to myself at a meeting with the DAA last year when discussing pricing to the cap, that part of the DAA's decision to price to the cap was that carriers had refused to pay PRM invoices. bmi has settled in full all these invoices in a timely manner, and we felt consequently severely disadvantaged by the actions of other carriers.
- DAA has invested heavily in the new T2 terminal (which we felt was equipped with over and above the facilities/standards required to be classified as IATA standard C).
- The €10 ticket tax has been imposed (admittedly out of the hands of the DAA).

All of these factors have contributed to the inexorable rise of the price to the passenger of departing/arriving at Dublin airport. Regarding published tariffs, Dublin is now more expensive to operate from than the BAA regional airports EDI & GLA. Due to these tariff increases bmi's price per departing passenger has risen circa 50%

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between 2005 & 2008. Passenger demand is unfortunately not price inelastic, and consequently this has resulted in passengers voting with their feet, and in their droves.

We require CAR as the regulator to recognise this and place more emphasis on your statutory duty to enable the DAA to operate and develop the airport in a financially sustainable manner. We feel that too much emphasis has been placed on the other statutory duties of facilitating the economic development of the airport, and furthering the reasonable interests of current & prospective users. These are very important, but the balance has been lost which is now seen in Dublin being an expensive airport to operate from (even before T2 comes on line).

As a consequence of all of the above, DAA and the airlines are faced with an increasing under-recovery (€0.15 pdp 2 years ago, €0.19 last year) and set to increase this year again due to passenger activity having dramatically dropped off. This is a self-fuelling spiral of decline, and we feel that CAR is about to make the same mistake in allowing an increase in the price cap purely to allow for the reduction in traffic. This is proving counter productive currently, and will prove so again due to price elasticities.

Regarding specific items of the draft determination, we have the following comments:

Cost of Capital

The cost of capital has declined significantly in the last year and a half, and we ask CAR to consider revising downwards the 7% cost of capital assumed in the draft determination.

T2 deferral

We recommend CAR to urge DAA to look at deferring the opening of T2, or deferring opening parts of it.

CPI

We think the regulator should revisit the CPI structure. The present structure allows for the October CPI to be used as the basis for the following year's inflation percentage. As CPI trend movement is cyclical, if CPI was on the increase in the October of the previous year, and then subsequently declines (due to slowdown of economic conditions which falling inflation is an indicator of), this leads to tariff increases at a time when passengers are reducing their travel.

There is the flip side of course, where if CPI is declining in the October of the previous year, and then subsequently inflation rises in the subsequent year (due to economic activity rising), this doesn't help the DAA as their costs are rising faster than their income. We acknowledge that CPI has to be calculated in a certain way,

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but feel that the current method is flawed for both airlines and the DAA due the cyclical nature of CPI and merits further investigation.

Trigger

We support the trigger CAR has proffered regarding T2 opening, subject to our comments above regarding the potential postponed opening of T2.

New runway

We are not convinced of the timing for the new runway as being necessary for the control period 2010-2014. Given by CAR's own assumptions that passenger levels will only recover to 2008 levels by 2014, we are not convinced of the case for the runway at this time.

We acknowledge there is a long lead time in new runway builds, but given that passenger levels are not forecast to rise to a level that can support a new runway, then we would not support such investment. The trigger level of 23.5million is set too low (2008 levels do not require new runway capacity, but the trigger suggests that they do).

Can you confirm that any charging for a new runway will be ex post (i.e. will only occur once a runway is in operational use).

Yes it must meet the needs of current & future users, but it must also be sustainable.

Service Quality Rebates

We welcome the introduction of the SQRs.

Conclusion

There is a limit to what the travelling public is willing to pay, and the exponential rise of the Dublin tariffs over the last several years has tested this. Airlines have had no choice but to pass these costs on. Coupled now with the ticket tax, the proposal to increase the cap will feed the passenger decline we all want arrested.

Consequently we urge the DAA to reconsider the draft determination and to keep the cap constant in order to stimulate passenger demand.

Yours faithfully
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