

# RYANAIR RESPONSE TO 2011 ATSC DRAFT DETERMINATION

## COMMISSION PAPER 1/2011 - 27 MAY 2011

### *Maximum Level of Aviation Terminal Service Charges that may be imposed by the Irish Aviation Authority*

#### INTRODUCTION

The draft determination is a welcome recognition that semi-State aviation costs, and in particular, staff costs, are out of control.

The draft determination contrasts positively with the CP3/2009 determination on Dublin Airport charges except, crucially, where they overlap i.e. on the unjustified capex “trigger” for an additional, unnecessary runway/tower.

#### **The Tower**

The IAA have confirmed to Ryanair (meeting 5<sup>th</sup> Feb 2009) that their claimed justification for a new Tower relied not only on a new runway but also on the construction of a third terminal in the Western Campus which, according to an unspecified DAA Masterplan, might obscure line of sight to the second, unnecessary, runway.

- At a passenger level of 23.5 mppa a third DAA terminal is not required as Terminal 1 alone has up to 30 mppa capacity and, in any event, DAA’s Masterplan shown within CIP 2010-2014, which formed the basis of the last Determination of DAA’s charges suggested that the Eastern campus could be developed up to a capacity of 50 mppa, meaning that there would be no new impediments to the line of sight to the runways from the existing tower.
- The CAR recognises that the 23.5 mppa trigger will not be reached without a “dramatic” or “unexpected” change in passenger growth over the period of the determination. As confirmed by the Minister (Irish Times 14<sup>th</sup> May) the most likely source of any such growth would be Ryanair as it is the only airline with sufficient capacity to do so. It would be absurd to implement a low cost plan for growth if this would trigger unnecessary airport and air traffic control price increases, which in turn would collapse passenger numbers.
- The 23.5 mppa trigger for a second runway is unjustified. Gatwick Airport has handled over 35 mppa with one runway.
- The IAA has confirmed that the design and location of Pier E has resulted in aircraft holding and delays, claiming that the “DAA never consulted with them”. Given this elementary failure, it would be preposterous that a new and unnecessary Tower were to be built on the basis of IAA imaginings based on an unspecified DAA Masterplan, which has no possibility whatsoever of seeing the light of day.
- Furthermore, the costs proposed by the IAA are excessive and the tower is over-specified. No justification is given for why the Tower needs to be 86.9m high when Manchester Airport, which already operates with two parallel runways, is proposing a new Tower of 60m at a cost of between €16 and €22m, compared to IAA’s proposed costs of €35m. This is a further example of IAA’s inefficient costs. On this basis, any additional costs to

be included within the cap, once the Tower is justified, should be substantially below the proposed €4.1m per annum.

- The new Tower cannot be built until after the new runway becomes operational as it infringes the obstacle clearance surfaces to runway 16/34 and so would require closure of that runway and a reduction in runway capacity if the new Tower is constructed prior to the new runway becoming operational.

If the CAR insists on retaining its second runway trigger then the trigger for the Tower should depend on the commencement of construction of the unspecified oversized third terminal on which the IAA plan is based rather than the arbitrary 23.5 mppa threshold for the second runway, which is premature in any event.

### DETAILED COMMENTARY

It should be noted that the 15<sup>th</sup> April IAA presentation of its “*investment*” plans was nothing other than a perfunctory box ticking exercise as the IAA required feedback from this session to form part of their report to the CAR ahead of a decision expected at the end of April. The original scheduled presentation date of 29<sup>th</sup> March provided users with just 2 days notice and no advance detail.

### 3. Draft Determination

3.1 The reduction in the price cap is welcome and necessary.

3.1 The new Tower allowance trigger of 23.5 mppa is an error as this traffic level will not require either a new runway or an outsized Terminal 3 on the Northern Campus, both of which underpin the IAA’s claimed requirement.

The penalty scheme is welcome and sensible in that it responds to specific events rather than the ineffective “*averages*” applied to many DAA service standards. It is vulnerable to IAA abuse as the coding of delays published by Eurocontrol are provided by the IAA in the first instance. A deterrent to this abuse in the form of a sanction multiplier where offending delays are miscoded should be applied.

3.3 While the CAR does not propose to include sub-cap at this time, we note the CAR’s expectation that the “*generality of airline users*” should not be expected to pay for runway facilities not required by them. Regrettably, the CAR has not applied this sensible approach to Dublin Airport price increases arising from Terminal 2.

3.4 The CAR applied a WACC of 5.6% to the IAA compared to that of 7% applied to the DAA. This reflects a realism about IAA’s actual costs of debt rather than a theoretical approach to future borrowings as adopted in the DAA Determination, with the higher WACC being used to justify excessive charges to airport users following the unjustified intervention by the Minister of Transport through Directions issued. In this Determination, the CAR has discounted the current Irish credit difficulties as to provide for a higher risk free rate would penalise users. In contrast, the DAA Determination fully factored in the effect of the credit crunch and penalised airport users accordingly.

### 4. Commission’s Approach to Regulation

4.2 The Commission continues to include “*certain costs of the Dublin and Ballycasey Area Control Centres (ACCs)*” but fails to question the requirement for two centres. Costs from the Ballycasey Area Control Centre should be excluded.

- 4.6 The statement that “*the IAA assumes all the risks*” for a given level of traffic is untrue, particularly given the existing and proposed volume risk adjustment term. The WACC incorporates a provision for risk which is underwritten by users.
- 4.16 Figure 4.2 reveals a fundamental naivety in the regulatory approach which views IAA charges as a function of traffic and ignores how traffic is also a function of IAA charges. Ryanair confirmed in March 2009 that increases in IAA charges (see attached Press Release) were a significant factor in capacity reductions at Dublin Airport.

## 5. Quality of Service

- 5.11 The CAR fails to explain why it does not “*believe that the volcanic ash experience would warrant the IAA suffering financial consequences, over and above the losses that accrue from whatever volume risk it is required to bear under the price cap formula*”. This unexplained, and unjustified belief flies in the face of Article 13 (Right of Redress) of EU Regulation 261 which specifically allows for airlines to recover costs arising under EU 261 from third parties responsible for those costs. The IAA closed Irish airspace during the volcanic eruption causing unprecedented cancellations and costs - leading, it is claimed, in one instance to the receivership of one Irish airline.

**The CAR should emphasise rather than prejudice the entitlements of airlines under Article 13 (Right of Redress) of EU261.**

- 5.12 Ryanair supports the CAR’s proposed price cap reductions in the case of delays resulting from flight cancellations arising from IAA staffing shortages, industrial action or equipment failure.

**As the CFMU data on which potential price cap reductions rely comes from the IAA in the first instance, a deterrent against false reporting should be included.**

- 5.14 The penalties will have no meaning if any associated traffic decline is included in the volume risk sharing arrangement.

**Traffic shortfalls arising from cancellations subject to penalty must be excluded from the volume risk sharing arrangement.**

## 6. Traffic Forecasts

- 6.2 The CAR has abandoned IAA traffic forecasts in this determination preferring Eurocontrol statistic and forecast services in contrast to CP3/2009 where DAA’s own forecasts, without independent verification, were used in the DAA Determination.

## 7. Operating Expenditure

- 7.9 Ryanair welcomes the CAR’s belated recognition that IAA operating costs are excessive and that “*if the difference between the actual level of opex 2001 and forecast level in 2015 is purely due to changes in traffic, it would apply an elasticity of 1.5: for every 10% increase in movements, opex would increase by 15%*”.
- 7.12 10% of IAA costs are “*set by Met Eireann*”. The draft determination provides no incentive to the IAA to challenge or reduce these costs to those paid by airlines.

**Allowed Met costs should be reduced by 90% to commercial levels.**

- 7.14 No breakdown is provided between recurrent and initial training which, as in the case of the majority of pilot type ratings, should be funded by the student.

**The training allowance of €1.1m. should be reduced to accommodate only recurrent IAA training needs.**

- 7.19 Ryanair welcomes the CAR's belated recognition that the IAA peer group "*may not be regarded as the most efficient operators*". Regrettably, the CAR did not bring the same commonsense approach to the DAA peer group claims in their December 2010 Determination (CP4/2009). Ryanair also welcomes the CAR's recognition as to how competition (in this case in Sweden) "*demonstrated the potential for cost savings*".
- 7.32 Ryanair has trained over 400 Boeing 737-800 pilots per annum in the last three years, while also accommodating the grounding of up to 25% of the Ryanair fleet during the winter period. IAA claims that it is "*harder to respond to unplanned reductions in traffic*" is manifestly untrue when compared to the challenges successfully overcome by one of its largest customers, Ryanair.

## **8. Capital Costs**

- 8.15 As discussed in the introduction above, the 23.5 mppa trigger for a new Dublin Tower is unjustified and should be removed.
- 8.4 No justification has been provided for the Cork Tower capex and IAA traffic level arguments against the use of technology in Dublin fail when applied to Cork.

**Cork Tower capex should be excluded from the RAB.**

- 8.13 Ryanair welcomes the CAR's position that where "*users have previously been asked to fund investments now being made redundant because of harmonisation requirements that should have been foreseen at the time of the original investment*" these are likely to be rejected. Again, the CAR failed to apply this sensible position in respect of Dublin Airport where the DAA now benefit from the accelerated depreciation of unwanted facilities (e.g. Area 14) subsequently made redundant by the DAA.
- 8.16 Ryanair welcomes the CAR's recognition that the "*generality of airline users*" should not be required to fund capital expenditure unless there is "*clear evidence of general support*". Regrettably, the generality of users are now paying for unwanted and over priced facilities at Dublin Airport for which there was never any "*clear evidence of general support*".
- 8.16 Ryanair welcomes the CAR's claim that it "*will need to be satisfied that the IAA consulted with users and identified the most cost effective option before proceeding*" and question why the CAR neglected this principle in the case of the DAA.
- 8.21 Cost of Capital - See 3.4 above.

# Ryanair wants landing charges abolished

PAUL CULLEN

Sat, May 14, 2011

**AIR TRAVEL:** RYANAIR IS seeking a drastic reduction and even abolition of airport charges – in addition to the abolition of the travel tax – in return for flying an additional five million passengers to Ireland over the next five years.

Minister for Tourism Leo Varadkar last week announced his intention to abolish the travel tax for airline passengers from July, provided airlines increase their traffic volumes to and from Ireland. Mr Varadkar, who has written to the 30 airlines flying into this country, said some had responded positively but one leading airline was “looking for more”. He declined to identify this airline but it is understood to be Ryanair.

A Ryanair spokesman said the airline had submitted a proposal to the Government for additional flights, which had the potential to create 5,000 direct jobs and 10,000 indirect jobs in tourism-related activities. The proposal differs from a previous proposal rejected by the last government in that it envisages increased traffic in Dublin, Cork and Shannon airports, rather than being focused mainly on Dublin, he said.

The spokesman declined to elaborate on the details of the Ryanair proposal but stressed the airline’s view that charges in Irish airports were “off the scale”. Charges in some overseas airports had been abolished, he pointed out.

Airlines have already allocated their planes for this summer so the full benefit of any increase in flights would not be felt until next year. The abolition of the travel tax will cost the Exchequer €15m this year, €90m next year and €105m the year after.

The €10 travel tax was first introduced in 2009 but was reduced to €3 in the last Budget following intense lobbying.

Mr Varadkar acknowledged that Ryanair, because of its size, was key to the Government’s plans to increase air traffic and boost tourism. He also expressed concern about the slump in traffic through Shannon, where passenger numbers are down 18 per cent so far this year. This is in spite of the fact that traffic volumes in Europe in spring 2010 were greatly depressed by the ash cloud from an Icelandic volcano. Traffic in Dublin airport is up 6 per cent, that’s additional 300,000 passengers, but numbers fell 8 per cent in Cork.

Mr Varadkar said he would like to separate ownership of Dublin, Cork and Shannon airports but it was very difficult to see this happening because of debt issues. The Minister said he was expecting a major tourism boost from the forthcoming visits of Queen Elizabeth and US President Barack Obama. In addition, some 40,000 Portuguese soccer fans are expected in Dublin next Wednesday for the final of the Europa League in the Aviva Stadium.

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## RYANAIR ANNOUNCES MORE ROUTE AND FLIGHT CUTS AT DUBLIN AS GOVT OWNED IAA RAISES FEES 12%

16/03/09

Ryanair, Ireland's largest airline, today (16th Mar) announced a further series of route, flight and frequency cuts at Dublin Airport from July, as the impact of the €10 tourist tax and other Government price hikes cause numbers at Dublin to decline – down 12% in February alone. Ryanair confirmed that these latest cuts were being implemented in response to the decision of the Government owned Irish Aviation Authority to increase ATC charges by 12% this summer, at more than 12 times the rate of inflation.

From July 2009 Ryanair will close four routes from Dublin to Basel, Doncaster, Oporto and Teesside, and reduce frequencies on eight more routes from Dublin to Aberdeen, Biarritz, Billund, Bournemouth, Carcassonne, East Midlands, Malaga and Rome (Ciampino). These cuts will result in one additional based aircraft (five in total) being switched from high cost Dublin Airport to a low cost Ryanair European base in July.

Ryanair's latest cuts at Dublin for summer 2009 will see:

A 22% cut in Dublin based aircraft (from 22 to 17).  
A 20% cut in weekly rotations (from over 700 to under 600).  
A 23% drop in Ryanair's Dublin traffic (10.8m to 8.3m pax in 2009/10).  
The loss of 50 Dublin based jobs (250 in total).  
Further cuts in Ryanair's Dublin winter schedule will be announced later.

*Announcing these further Dublin cuts today, Ryanair's Michael O'Leary said:*

*"This latest 12% increase in Government owned ATC charges at Dublin Airport is another nail in the coffin of Irish tourism. These increases have been rubber-stamped yet again by Ireland's useless Aviation Regulator, Cathal Guimard, proving again how useless he is and that he should be sacked. How can any regulator approve a 12% increase in ATC charges in a year when inflation will be negative? This is impossible to justify.*

*"These IAA increases show that this gutless Government has no interest in Irish tourism. Over the last three months traffic at Dublin Airport has declined by 12%, with 500,000 fewer passengers, and this collapse will get worse from April when the Government €10 travel tax and these IAA increases come in.*

*"These massive Government cost increases prove that this Government is devastating the tourism industry. Already this year the DAA has increased airport charges, increased wheelchair charges, is double charging for kiosk installation and now the Government and its clueless Regulator allows the IAA to raise ATC charges by 12%, when inflation is at 0%.*

*"At a time when Governments and airports all over Europe are reducing costs in order to stimulate tourism, the Irish Government is raising costs and introducing taxes which can only damage tourism. Ryanair calls again on the Irish Government to promote tourism by scrapping the travel tax and sacking Cathal Guimard, the useless and incompetent Aviation Regulator".*

### CANCELLED

Basel  
Doncaster  
Oporto  
Teesside

### REDUCTIONS

Aberdeen  
Biarritz  
Billund  
Bournemouth  
Carcassonne  
East Midlands  
Malaga  
Rome (CIA)