

10<sup>th</sup> June 2004

Mr. William Prasifka  
Commissioner for Aviation Regulation  
Commission for Aviation Regulation  
3<sup>rd</sup> Floor  
Alexandra House  
Earlsfort Terrace  
Dublin 2

Dear Bill,

### **Review of the Air Terminal Services Determination**

I refer to Commission Paper CP3/2004 calling for comments on the CAR's decision to review its original determination of 26<sup>th</sup> February 2002 on ATS.

The paper cites as the basis for the review yet another error by the CAR in its regulatory formulae and recommends a reduction in the CAP from the current €2.31 to €2.00 as a result of this error. However, the review completely ignores the fact that the CAR has more than doubled the maximum permitted charge for ATS in the last three years (from €1.00 in 2002 to €2.31 in 2004/05), at a time when airlines have been forced to increase efficiency and offer lower airfares to consumers due to increased competition. This doubling of the permitted charges has also taken place at a time when inflation is averaging just 3% and when the IAA announced profits last year of €6 million. Instead of forcing the IAA to increase efficiency and lower costs (as it is required to do), the CAR has actually encouraged inefficiency by applying an efficiency factor of + 7% - this in addition to the annual rate of inflation.

We therefore recommend that, instead of simply correcting its error in the regulatory formula, the CAR should actually do something to encourage the IAA to improve efficiency and reduce costs, which will in turn lead to lower airfares for consumers. The starting point should be to reduce the current cap by at least 50% (to reverse the doubling of these charges permitted by the CAR over the past three years) and to apply an efficiency factor that actually encourages efficiency - we would propose inflation minus 4%.

The CAR's record in respect of ATS charges is matched by its complete failure to regulate the Aer Rianta airport monopoly. The CAR has failed to meet its statutory obligation of facilitating the development of "*cost-effective airports which meet the requirements of users*". Despite having found Aer Rianta to be 50% more inefficient than the best of their peers, the CAR has allowed them to increase charges from €5.30 to €5.45 per passenger instead of compelling them to reduce charges by at least one third in order to force them to become more efficient. As a result, consumers are paying higher costs for third rate, third world airport services.

Finally, the CAR has also failed to “*ensure that its own costs of operation are kept to a minimum*” and has allowed its costs to almost double - from €1.95 million in 2002 to €3.6 million in 2004. This has led to air carrier fees increasing in the last year by 500%, ground handling fees by over 220% and slot co-ordination fees by 32%. These higher fees are again borne by consumers through higher airfares, solely as a result of the CAR’s own profligacy and waste.

These statutory failings, combined with the CAR’s failure to control its own costs, have led to higher airfares for consumers and seriously highlight again the total failure of the CAR to regulate either the IAA or Aer Rianta monopolies.

Yours sincerely,

Jim Callaghan  
***Head of Regulatory Affairs and Company Secretary***