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Ireland West Airport Knock's Response to the Consultation Paper on the Implementation of the Levy pursuant to Section 23 of the Aviation Regulation Act, 2001 – Commission Paper CP7/2007

Dear Alan

Since its establishment in 2001, the Commission has advanced the reputation of the Irish Aviation industry and has played an important role in the regulation of certain airport charges, designated airport's slot co-ordination, airline licensing and the licensing of the travel trade. We acknowledge and welcome that this role has now been extended to the areas of consumer protection for airline passengers.

Background to our Airport

Ireland West Airport Knock is Ireland's fourth international airport with passengers numbers forecasted to exceed 720,000 in 2008 and achieve 1,000,000 by 2010.

The airport serves a catchment population of approximately 900,000 people in a 90 minute drive radius of the airport. It currently provides 10 scheduled services to London (Gatwick, Luton and Stansted), Manchester, Birmingham, Nottingham East Midlands, Bristol, Dublin, New York and Boston which account for 85% of all passenger traffic and has recently announced the launch of a new service to Glasgow in February 2008. Charter services for circa 90,000 passengers bring the total number of destinations serviced from Ireland West Airport Knock to 26.

Inbound passengers using the airport contribute €62m in tourism spend and utilise 830,000 bed nights in the region.

To continue its growth to meet the access requirements of the region and its business and tourism interests, the airport has positioned itself as a low cost airport, attracting low cost carriers to provide route services that otherwise would not be attainable. The competition

amongst European low cost carriers and amongst airports requires this airport to remain highly competitive on airport fees and charges to all its airline customers. Our experience and that of many other regional airports is that aviation charges are being forced downwards by market competition over time. In this climate, the airport does not have the ability to pass on increases in regulatory costs to airlines and must absorb these costs itself. As a relatively small airport this has a significant impact on profitability and business sustainability. The direct charges proposed by the CAR need to be seen in the overall context whereby there is a wide range of charges for security, safety and regulation which are impossible to pass on to the airlines because of the weak position which regional airports increasingly are in vis a vis the trading environment with much larger airline entities. In the absence of regulation which would provide for a level playing field and more equitable share out of charges then the imposition of additional direct charges is premature as well as being unfair and could have a very damaging impact on access provision.

Commission's role in regulating privately owned airports

Historically, the Commission's role has focused on the regulation of fundamental aspects of the operation and charging regime at state owned airports, in particular Dublin Airport, licensing of air carriers, ground handling companies and the travel trade. There does not appear to be any direct historical role in the operation and regulation of the non-state owned airports (for the purpose of this document referred to as the regional airports). The introduction of EC regulations on passenger rights and the Commission's role in policing these regulations has provided a basis whereby the Commission has a direct role in all airports operating within the state, both state owned and regional airports. However, the current initiative by the CAR does not deal with such measures and it is therefore one which has very different and more damaging implications for an airport like Ireland West which has not had benefit of other forms of regulation which the (previous) state airports enjoyed.

Commission's proposed fees and levies for 2008

The Commission has historically sought to recover costs by means of a levy directly linked to the activities to which they relate. With the additional responsibility of these new EC regulations, the Commission is seeking to re-structure its system of cost recovery and fund this new area.

Proposed New Consumer Protection Role Levy

The Commission's proposal to introduce a new levy to all airports, both state and regional, and its methodology to recover the costs associated with its new consumer protection role is detailed in the consultation document.

It is feasible for large airports, such as Dublin Airport whose location and market demand for passenger services provide airlines with better commercial potential, to pass on justifiable increases in charges brought about by increased regulatory costs and levies. However, because of the non-uniform application of the regulation system whereby the DAA is supported in increasing justified charges but regional airports (like Ireland West) are not, there is an inherent unfairness in the system which thus does not allow regional

airports to pass on such justifiable costs to the airlines and ultimately to the passenger, which is the Commission's objective for such a system. This has been discussed in the past by Liam Scollan, our Group Managing Director, with the Department of Transport and raised previously with the Competition Authority.

In addition, there may be anomalies in the current provision of public services at airports whereby certain services are not charged at market rate to state airports but regional airports must provide these services themselves at market cost. Indirect subsidisation of state airports, through any public service subsidisation and through such initiatives as historic support for the basing of the state owned carrier and through such mechanisms as the Shannon stopover, has given rise to a situation of market failure which leaves other regional airports at a significant commercial disadvantage to that of the state airports. Without an overall aviation policy that treats everyone equally and overcomes the obvious market failure and anomalies it is premature and unfair to consider imposing such a charging system.

For the reasons outlined above, it is unworkable in the regional airports sector for such costs, be they directly incurred by a regional airport in meeting its obligations under EC regulations or be they Commission levies, to be passed onto the airlines. Regional airports, realistically and under current policies, do not have the ability to impose additional charges uniformly on its airline customers. Commercial reality and market conditions mean that such charges must be borne by the airport itself.

Ireland West Airport Knock contends that the Commission's proposed method of recovering the cost of its consumer protection role is unsustainable for regional airports. However, it is certainly willing to enter into dialogue with the Commission to help address the fundamental anomalies referred to here.

Proposed Central Levy

It is our understanding that the newly proposed Central Levy is to recover the Commission's overhead costs and legal expenses and to correct an historical problem of recovery for such costs which may fluctuate year on year.

It would appear that the overhead and legal costs to be recovered from this new levy relates to all aspects of the Commission's work and not just that element which relates to its new consumer protection role. It would also appear that this levy represents a balancing charge, which seeks to reconcile the Commission's total annual costs to its expected total income from levies and charges.

On this basis, the regional airports may be charged, on a pro-rata basis, for overhead and legal costs associated with aspects of the Commission's role which do not relate to the regional airports. As a matter of proportionality there is no basis to levy such a charge on this or other regional airports. This would be a totally unjust system of cost recovery.

For these reasons and for the reasons we have outlined under the new consumer protection role levy heading above, it is unjust for a regional airport to have such a

charging structure imposed and unworkable for such a central levy to be passed onto the airlines and thus ultimately the consumer. Therefore this is not a charge that would be borne by the consumer which, we understand, is the aim of the Commission. Regional airports do not have the ability to impose additional charges on its airline customers. As previously stated, commercial reality and market conditions mean that such charges must be borne by the airport itself.

Ireland West Airport Knock strongly objects to any proposal that seeks to charge it for costs which have little or no association with the Airport, its passengers or its obligations under EC regulations.

Ireland West Airport Knock believes that the vital policing role provided by the Commission is done in the public interest and should be paid for out of the public purse, as is the case with comparable roles in the area of aviation security regulation etc.

We would be more than happy to meet with the Commission to further explain our views and to co-operate with the Commission to help it fulfil its important remit in an effective, uniform and fair manner.

Yours sincerely

Robert Grealis
Chief Executive