

# **Services Industrial Professional and Technical Union**



## **Response to Airport Charges Draft Decision Paper**

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### **Introduction:**

Services Industrial Professional and Technical Union (SIPTU) is Ireland's largest Trade Union.

This paper is our Union's response to Commission Paper 3/2009 of 18<sup>th</sup> June 2009 and titled "*Maximum Levels of Airport Charges at Dublin Airport Draft Determination*".

It is our contention that the per passenger price caps set out in the Draft Determination are inadequate and inappropriate in that they;

- a) negatively impact on general financeability for all staff in the three State airports.
- b) create unnecessary strain on the positive maintenance of industrial relations.
- c) do not provide realistic platforms to sustain the acknowledged high level of quality of services offered at the airport by the staff.
- d) negates the opportunities that the airport can contribute to the North Dublin community, and
- e) fails to take cognisance of the reality of the aviation industry's different business models.

### **Impact of General Financeability issues on Staff:**

- If CAR does not address DAA's financeability issues, the business will be unsustainable and this will harm the jobs of our members. This could have a lasting-legacy, if it results in increasing operational inefficiencies which will lead to further unnecessary price cap distortions.
- While CAR can use opex forecasts to inform the scope of achievable efficiencies, the opposite is also true. If CAR refuses to recognise the cost realities of operating an airport to the correct standards & regulations, DAA, as a commercially-orientated organisation, will not be able to maintain losses indefinitely, and will be incentivised to cut costs & staff unsustainably.
- The current market turmoil has had a significant impact upon DAA staff's pension scheme. As a recognised area of operating expenditure, CAR is obliged to give sufficient allowance for the recent agreement reached with the company and on-going pension issues associated with falls in the value of pension funds and an aging population (*Appendix 1*).

## **Industrial Relations:**

- Industrial peace is essential for any business and the wider economy
- Industrial peace has been preserved in Dublin Airport by the ‘active presence of fairness & mutual respect between employee & employers’
- This social framework has been the cornerstone of Ireland’s economic stability up until recently, and must be taken into consideration by CAR.
- CAR cannot put the DAA in a position where it is unable to fulfil its obligations to its employees. Dublin Airport is by far the most important air link between Ireland and the world economy, and disruption must not be risked just to satisfy the demands of the dominant airlines.

## **Service Level Quality Issues:**

- CAR has statutory a objective to have due regard to the level and quality of services offered at the airport by the airport authority.
- Unless CAR is minded to tailor service levels to match economic conditions, staff cannot be hit, as fixed capacity implies certain staffing levels, for maintenance etc. that are independent of passenger numbers.
- DAA staff have first hand daily experience listening to the needs and wants of passengers. The message consistently conveyed is that passengers expect a properly equipped and well maintained airport.
- Some airlines envisage Dublin Airport becoming a basic transit facility with minimal facilities and customer service, with a price cap and staffing levels to reflect this. DAA front-line staff consistently receive the message that passengers expect better than this.
- Staff efforts to meet these requirements are reflected in Dublin Airport’s improvement in the main metrics of the Airport’s Council International (ACI) quarterly service quality monitor since the start of 2006. These improvements were made in spite of increased congestion and are in large part ascribable to the professionalism and dedication of DAA staff.

## **Dublin Airport and North County Dublin:**

- The following points are important in the context of Section 33 (d) of the Aviation Regulation Act 2001, which requires the Commission to have due regard to the contribution of the airport to the region in which it is located.
- Dublin Airport has long been central to the community of North County Dublin, since first opening its doors to civilian passengers in January 1940. Given its long history, and its provision of many permanent quality jobs, Dublin Airport is of huge importance not only to the people and families directly linked to the Airport, but also to the wider local economy and community, which has already just been hit by the loss of over 1,100 jobs at SR Technics.
- A recent study put the total amount of employment generated by Dublin Airport in Fingal County alone at 15,350 in 2008.
- Projections for airport-linked employment in the Dublin region in 2025 decrease by approximately 30% when a constrained scenario is considered. The constrained scenario centred on the assumption that a second runway was not built.
- Jobs are being lost in Ireland due to poor competitiveness. This is in no small part a consequence of poor infrastructure. Dublin Airport is extremely competitive in terms of price, thanks to DAA staff, but is lacking in terms of infrastructure. CAR needs to ensure that Dublin Airport will not face crippling capacity constraints going forward.

## **Contradistinct Business Models:**

- The airport business is the provision of fixed capacity, certainly in the short-run. Unlike low cost carrier operations, the shedding of experienced and skilled staff in the absence of viable alternatives as a cost cutting measure to secure short-term profits could ultimately prove economically inefficient.
- Given that Dublin Airport deals in the provision of a fixed asset, operating expenditures, particularly payroll, cannot be expected to match nearly as closely the fluctuations in revenue as would be the case for airline's payroll.
- Airlines do not appreciate that they are dealing with a different business model. Their desire to see the pain being shared is understandable, but CAR must ensure that this drive does not override the need to have properly staffed facilities available once current market conditions improve.

- Unsustainable job cuts would hurt airlines once current conditions have passed via:
  - New airport inefficiencies from unsuitable staff
  - Inability to process passengers at acceptable rates
  - Inability to meet airline service needs to sufficient levels
  - Depressed commercial revenues from reduced retail staff resulting in higher price cap

### **Recommendation:**

To ensure that Dublin Airport can achieve the highest levels of all standards, we believe the passenger price cap should be set at a minimum of €10.50.

*Note: The author took a random example of a return flight to Malta using Ryanair, departing on 11<sup>th</sup> August 2009 and returning on 18<sup>th</sup> August 2009. The total cost of the air fare is stated at €388.89.*

*Allowing for the current average passenger charge of €7.39, our recommendation of €10.50 would equate to €3.11 uplift in the per passenger price cap.*

*In terms of the above random example, we do not believe a 0.8% increase would act as a disincentive to any member of the travelling public.*

### **Summary:**

- Over the course of Dublin Airport's history the staff of Aer Rianta and subsequently the Dublin Airport Authority, have always strived to give the dedication and quality service expected in an international airport.
- Particularly in the last few years Dublin Airport's workers have risen to this challenge strongly, doing everything possible to facilitate ever-increasing numbers of people passing through (*Appendix 2*).
- It has been consistently shown that Dublin Airport's charges are amongst the lowest in Europe. Given that payroll accounts for over 60% of DAA's cost base, it is clear that worker's efficiencies have a strong lowering effect on airport charges via reduced opex.
- The main benefactors of these efforts seem to be the budget airlines, who, not only enjoyed increased revenues over the last few years, but who also increased revenues per passenger at the same time (through the implementation of check in charges, baggage charges etc.).
- In all of Dublin Airport's history, there has never been a single major safety threat to passengers, nor any significant security breaches. This reflects not only worker's

dedication and professionalism, but also an industry which requires consistently high quality staffing.

- DAA staff are already facing uncertain prospects, e.g. the tender for T2 contracts is at a very early stage. Pay agreements under the National Wage Agreement have been frozen. DAA staff are already making sacrifices.
- Dublin airport is a highly regulated industry, in terms of safety & security compliance, and DAA cannot be expected to make significant payroll savings in these areas.
- If CAR is minded to assume job losses when calculating DAA's future operating expenditure then CAR must allow for the *real* cost savings, e.g. inclusive of severance packages to the appropriate scope and levels.

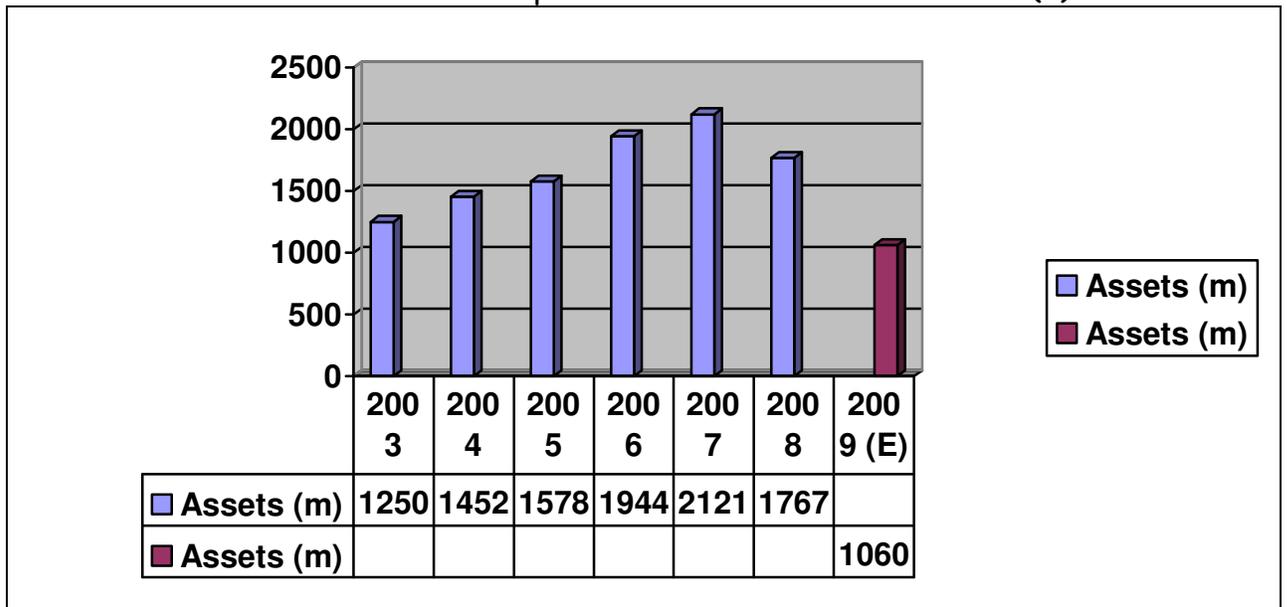
We strongly urge the CAR to give qualitative consideration to the arguments contained herein.

# **APPENDIX 1**

## Irish Airlines (General Employees) Superannuation Scheme

# “A TIME FOR URGENT ACTION”

Assets of the Irish Airline Superannuation Scheme 2003/2009(e)



According to the 2008 Annual Report for the year ended March 31<sup>st</sup> 2008 it was stated under the heading “Actuarial Position” that:

*“An actuarial valuation is usually carried out every three years. An actuarial valuation was carried out as at 31<sup>st</sup> March 2008 and the result was an excess of assets over liabilities of €79m amounting to 5% of the actuarial value of the Scheme’s liabilities without making any allowance for future pension increases.”*

Therefore it is reasonable to assume that the liabilities in the Scheme, on the 31<sup>st</sup> March 2008, would amount to €1,688m. However since that time there has been a very significant devaluation in the market value of the Scheme’s funds.

In light of the above we undertook to take a broad snapshot of the market value of 14 of the Scheme's 20 largest investment holdings.

<b>Investment Holding</b>	<b>% Value March 08 - v - March 09</b>
Irish Life Index Euro Equity Fund	-48%
Irish Life Property Fund	-20% (28/02/09)
Irish Property Unit Trust	-41% (31/12/08)
CRH plc	- 33%
Allied Irish Banks	- 96%
Bank of Ireland Group	-95%
BP	-10%
Vodafone Group	-24%
Ryanair Holdings	+5%
Anglo Irish Bank	-100%
Kerry Group plc	-23%
HSBC	-47%
Rio Tinto	-57%
Royal Dutch Shell	-13%

*(Interestingly enough, as part of what is deemed "normal investment manager activities" the Scheme held 456,318 shares in Aer Lingus Group plc. If the Scheme held on to this investment the Scheme will have lost over €650,000 on this holding alone which equates to a 71.25% loss.)*

It appears that the value of the investment and property holdings has decreased in the region of 45% - 55%. However for the purposes of this paper we are going to make calculations on the basis of a 40% devaluation of the net assets of the fund.

	<u>€m</u>
Fund as at 31 <sup>st</sup> March 2008	1,767
40% Devaluation	(707)
Fund as at 31 <sup>st</sup> March 2009	1,060

If we assume that the Scheme's liabilities remained at 2008 levels this would realise a financial scenario wherein there would be an excess of liabilities over assets of €628m and this is without giving any consideration to making any allowances for future pension increases. In

this scenario the Irish Airlines (General Employees) Superannuation Scheme could not satisfy the Statutory Minimum Funding Requirement.

An excess of liabilities over assets of over €628million is an extremely challenging vista that must be addressed immediately. To this end it is noted that the two primary employers i.e. Aer Lingus and the Dublin Airport Authority have substantial net cash balances in the region of €1.375billion. Accordingly, as the Irish Airlines Scheme is registered as a defined benefit scheme with the Irish Pensions Board it is incumbent on the Trustees of the Scheme, in concert with Aer Lingus and the Dublin Airport Authority, to prioritise the establishment of recovery proposals to re-establish the positive wellbeing of the Irish Airlines (General Employees) Superannuation Scheme. The main employers must set aside funds from their cash reserves to demonstrate the appropriateness of an investment approach that will secure the viability of the Irish Airlines (General Employees) Superannuation Scheme.

If the primary parties, associated with the Scheme, fail to act on the considerations contained herein it will be seen as an abandonment of corporate social responsibility and reasonable managerial ethics.

End  
Civil Aviation Branch  
Pensions Advisory Group  
April 2009

# **APPENDIX 2**

**Dublin Airport**  
**15 Year Dublin Airport Authority/Aer Rianta Staff**  
**Productivity Analysis - April 2009**

Year	Passengers (000's)	Number of Staff	Passengers/Staff Ratio
1994	6,981	1,036	6,738
1995	8,025	1,058	7,585
1996	9,091	1,087	8,363
1997	10,333	1,130	9,142
1998	11,641	1,263	9,217
1999	12,802	1,345	9,518
2000	13,844	1,318	10,503
2001	14,334	1,332	10,761
2002	15,085	1,365	11,051
2003	15,856	1,289	12,301
2004	17,138	1,321	12,973
2005	18,450	1,407	13,113
2006	21,196	1,742	12,168
2007	23,287	1,879	12,394
2008	23,465	2,004	11,710

Civil Aviation Branch  
Productivity Analysis – April 2009

- Productivity has increased by 74% in 15 years.
- Since the beginning of the 21<sup>st</sup> Century productivity has never gone below the ratio of just over 10,500 which is well above the average of comparator airports.