

**Emerald Airlines response to
Commission for Aviation Regulation's
Draft Decision on an Interim Review of the Determination
(CP3/2022)**

29 August 2022

Introduction

As Ireland's newest regional airline, established within the term of the existing Airport Charges Determination at Dublin Airport, we appreciate the opportunity to join this discussion. As the only Dublin-based regional airline and the only scheduled passenger airline which is allocated 100% remote/non-contact stand operator at Dublin Airport, we have a unique insight into some of the existing challenges.

In this short note, we do not intend to address each aspect of the determination; however, below we address several general issues in response to CAR's determination and also briefly comment on a number of specific issues of relevance to Emerald Airlines operations at Dublin Airport.

Airport Charges and proposed price cap

Emerald Airlines recognises that airport charges, although a substantial burden on airlines cost base and ultimately passenger airfares, are necessary to ensure that airports can provide optimum facilities and service standards to the travelling public. Such charges are important in ensuring that Dublin Airport can deliver customers' expectations for airport services and facilities whilst enabling the efficient operations of their airline customers.

However, a balance must always be struck between facilitating strategic investment in maintenance, facilities upgrades and critical infrastructure and maintaining cost competitiveness for passengers and airlines. Airports such as Dublin Airport are geographic monopolies, with no competition, so there is a necessity for a cost-related, balanced and fair approach to charges with inbuilt efficiency improvement targets in order to prevent any abuse of a dominant position by the Airport.

While the traditional argument concerning price cap regulation was that the regulator merely chooses an upper price level, and that the airport operator has a wide degree of commercial freedom within this high-level restriction, we believe the regulator should have a higher degree of input into specific service levels. The draft Determination contains only high-level generic service levels for all airline and passengers, irrespective of their individual needs and wants.

We concur with CAR's rationale for the proposed price cap based on an analysis of DAA outturns on costs and revenues over the forthcoming four-year period. As part of this analysis, CAR also notes that the anticipated higher passenger numbers expected relative to the more conservative forecasts from DAA, is also a key factor in its determination. The latter will lead to increased charges by passenger volume and also increased commercial revenues for the DAA. In other words it benefits the DAA to underestimate the passenger numbers to achieve a higher Price Cap and to then benefit from the multiplier effect of exceeding projected passenger volumes.

Based on CAR's forecast passenger numbers of 35.2 million by 2026, it is projected that there will also be further scope for DAA to realise economies of scale and to achieve further operating efficiencies. Emerald Airlines are in agreement with CAR on the projected passenger numbers and believe DAA are being deliberately conservative in their assessment.

Capital Development

Investment in infrastructure is vital to the efficiency and growth of any airport. However, it is essential that such development is suitable and appropriate to the needs of each airport. A correct balancing of the burden of financing capital development also must be struck between the developing body (DAA) and the end-users (airlines and passengers). Capital development at Dublin Airport has a wider benefit which accrues to Ireland's national economic development, which must also be considered, in isolation from airlines and passengers' immediate benefit.

Emerald Airlines are disappointed to see no reference is made to alternative solutions to Capital Development such as the removal of document checks on Common Travel Area (CTA) and Domestic arrivals, which would not only would improve service levels (and consumer demand), but would also increase capacity for non-CTA arrivals.

Emerald Airlines raised these "easy wins" during the Dublin Airport CIP2020+ Review Panel, however no reference to this project in the Capital Development projects.

Notwithstanding, the need for such infrastructural enhancement and development, it is critical that airlines are not required to pay for these projects upfront. Airlines and passengers should not be required to pay charges to fund such projects until they are fully operational and available for use by airlines and their passenger. There must be a risk-reward relationship for the DAA to focus on efficient, successful delivery of Capital Programmes and to develop their skills in this area.

Emerald Airlines agrees with the cancellation of Terminal 1 Pier New Airbridges and the Hydrant Enablement –Pier 2 & 3 projects along with the deferment of the New Remote Apron 5M and Terminal 1 Check-in projects.

Service Quality

The continued failure by DAA to deliver on the core service levels across Security and Cleanliness has harmed the Emerald Airlines brand in our crucial start-up phase and caused untold reputational damage for our new airline, starting up in an incredibly challenging environment.

Emerald Airlines object to the use of bonuses to incentivise delivery of Quality of Service (QoS) standards considering the scale of damage caused to airlines using Dublin Airport during 2022. Bonus should only apply after 24 months and only then when there is a demonstrable and consistent exceedance of Peak Period Target Service Levels. There should also be a review of such bonus schemes to allow for unintended excess achievements or inappropriate metrics.

Emerald Airlines supports the regular reporting of performance on all the measures, including those that do not give rise to a Price-cap adjustment, in particular reporting of On Time Performance at the airport.

In our opinion the Quality-of-Service system in place which only places up to €0.36 annually at

risk if Dublin Airport fails to reach specified quality targets is inappropriate as this fails to motivate the operator to improve service standards in a swift manner.

Inflation

Emerald Airlines are concerned by the comment in the Draft Decision on an Interim Review of the 2019 Determination in relation to 2023-2026 which states that 'Dublin Airport is protected from general inflation risk'.

While an allowance should be made for general inflation increases in operational expenditure only, any inflation-related rises should be capped in order to encourage competitive pricing at Dublin Airport and offer consumers a greater choice of routes and carriers.

Should we remain in an unpredictable and high inflationary period as currently, the price cap should not be allowed to increase linearly. Air fares cannot and would not increase at a proportional rate due to the impact on consumer demand and would lead to a reduction of air services at Dublin Airport. The Airport must play its part in absorbing inflation above certain measures

Climate & Sustainability

Emerald Airlines welcome the additional focus given to promotion of sustainability and climate related projects in this Draft Decision including the incorporation of the proposed sustainability Capex projects such as the increase vehicle charging facilities across the airport campus.

Dublin Airport is fall behind its European peers on issues of climate and sustainability, these projects should deliver measurable results to the airport and airline users.

Conclusion

Emerald Airlines position in respect of Draft Decision on an Interim Review of the Determination (CP3/2022) of 29 May 2014, can be summarized as follows:

1. We support CAR's recommendations on the price caps and are in agreement with the determination that passenger numbers provided by Dublin Airport were too conservative. Increased passenger numbers, aligned with the greater economies of scale, which this increase will facilitate, will ensure that existing levels of customers' services at Dublin Airport can be maintained and improved upon over the period.
2. We support the need for ongoing maintenance and development of critical infrastructure at Dublin Airport. However, such development must prove itself to be robust and deliver a tangible return for airlines and passengers utilising the airport. It is also critical to achieve a proportionate balance between the burden which must be borne by airlines and passengers and the DAA itself in developing such infrastructure.

We agree with the scope of projects which have been cancelled.

3. DAA and CAR should reassess the "easy wins" raised by Emerald Airlines, particularly around the area of documents checks for CTA and Domestic Arrivals.

This change which would not only would improve service levels (and consumer demand), but would also increase capacity for non-CTA arrivals without any CAPEX requirement.

4. In terms of the funding of capital development at the airport, it must be a fundamental principle that all charges to develop such projects should not be levied on airlines/passengers until such facilities are fully operational and available for use

