

Irish Hotels federation

Response to Initial
Submissions to the
Commission for
Aviation Regulation

April 2001

TABLE OF CONTENTS

<u>1. IHF Response to Submissions</u>	<u>1</u>
<u>1.1 Introduction</u>	<u>1</u>
<u>1.2 Framework for Regulation</u>	<u>1</u>
<u>1.3 Aggregation of Airports</u>	<u>1</u>
<u>1.4 Charging Regime</u>	<u>2</u>
<u>1.5 Operating Costs</u>	<u>3</u>
<u>1.6 Efficiency, Effectiveness and Quality</u>	<u>3</u>
<u>1.7 Scope for Competition</u>	<u>3</u>
<u>1.8 Consultation</u>	<u>3</u>
<u>1.9 Conclusion</u>	<u>4</u>

1. IHF Response to Submissions

1.1 Introduction

The Irish Hotels Federation (IHF) welcomes the opportunity to respond to the submissions presented to the Commission for Aviation Regulation in its determination of airport charges. The IHF's submission, which was aimed at maximising the facilitation of the tourist industry, had presented the organisation's key principles which it believed should underpin any proposed system of airport charges in Ireland. This response outlines the key areas of various other parties' submissions on which the Federation would like to comment. The IHF would like to reiterate a number of its key points arising in response to the submissions forwarded to the Commission for Aviation Regulation.

1.2 Framework for Regulation

The IHF is pleased that most parties are in agreement in favouring the incentive framework for regulation. The IHF is concerned, however, that Aer Lingus, Ryanair, Aer Rianta, the Department of Tourism, Sport and Recreation and the International Air Transport Association (IATA) believe that capital expenditure should be funded from revenue from charges.

Air access transport is recognised at State level as being of vital importance to Ireland's economy, particularly the tourist industry. In 2000, 6.3 million visitors to Ireland contributed no less than IR£3 billion to the Irish economy^[1]. The emergence of Ireland as a major tourist destination has been facilitated by competition in airline travel^[2]. Given the prominent role played by air transport in the Irish economy, the cost of air infrastructure should be borne not by passengers but by the State. In keeping with general economic and business principles, charges to passengers should be determined by market forces only to ensure its competitiveness. Capital expenditure should not therefore, feature in driving up the costs of airfares. Making air travel a competitive mode of transport is a critical success factor for the economy, given Ireland's endemic problems arising from peripherality.

1.3 Aggregation of Airports

Disagreeing with both Ryanair and the IATA, the IHF strongly opposes the regulation of Dublin, Cork and Shannon on a separate basis. The operation of cross-subsidisation of charges at Cork and Shannon airports is both essential to ensuring their long term sustainability and in meeting the State's regional development objectives. Therefore, the IHF concur with Aer Lingus, Aer Rianta and the Mid-Western Regional Authority in stressing that the regulation of airports should take place on an aggregate basis.

1.4 Charging Regime

Similar to the position supported by Ryanair, the IHF believes that differentiated charges should be set for differentiated levels of services and facilities provided. The option of availing of low cost air access by passengers in Irish airports represents a key principle of the IHF, which is also supported by Aer Lingus and Ryanair. Although, the IHF remains somewhat unclear as to the charging regime proposed by Aer Rianta, the IHF does not support any charging structure which is based on users' ability to pay.

In contrast to the view forwarded by Aer Rianta, the IHF agrees with both Aer Lingus and Ryanair in favouring the adoption of the single till approach to charges and in opposing peak-load pricing. In line with Ryanair, the IHF also wants to reiterate its strong opposition to the recovering of charges directly from passengers, which, it believes, does not represent a customer friendly practice. Passengers anticipate that the airfare charged is an inclusive sum and therefore, do not expect to pay additional fees in going to or from their desired destination.

The IHF would like to take this opportunity to respond directly to Aer Rianta's remarks regarding the highly inefficient approach of using airport charges as a means of supporting the tourist sector. In their submission, Aer Rianta maintains that the likely effect of increases in airport charges on incoming tourist flows is negligible, as the airfare itself is only a proportion of the overall holiday price. The IHF opposes Aer Rianta's claims on the following basis:

q Firstly, the IHF believes that Aer Rianta's remarks are based on a misunderstanding of the Irish tourist market. Unlike many other European destinations, most incoming tourists to Ireland do not avail of 'package deal holidays' whereby, a holiday fee is inclusive of airfare and accommodation. Visitors to Ireland usually plan their air travel and accommodation independently, for example in 1999, 68 *per cent* of tourists arranged their holiday independently[3]. Therefore, the potential effect of increases in airport charges on incoming tourist flows is significant, as increased airfares is highly transparent to the customer and more competitive prices to other destinations could easily persuade potential visitors to go elsewhere.

q Secondly, the State has set ambitious plans to increase visitor numbers to Ireland to over 8 million by 2006. The Minister for Tourism, Sport and Recreation has only recently stressed the importance of maintaining the competitiveness of the Irish tourist industry if it is to meet this target, as well as the need for the industry to overcome the challenges it is currently confronting, namely:

- .. More intensified international competition in the holiday market;
- .. Wider international availability of low cost air access transport through growth of low cost carriers;
- .. A growing perception of Ireland in international markets as a high cost holiday destination[4].

The acknowledgement at State level of the vital contribution the tourism industry makes to the Irish economy, added to the continuing challenges faced by the industry itself to remain competitive requires

that costs, including airport charges, are minimised.

The extent to which Aer Rianta's position on airport charges betrays a lack of understanding of the market dynamics of the sector, in which it is a monopoly supplier, and also indicates a lack of appreciation of the need to align its approaches with the overall thrust of government policies and objectives for visitor numbers to Ireland, is a matter of grave concern to the IHF. The IHF believes very strongly that this should also be a matter of primary concern to the Regulator in determining the regime for regulation, competition and charges in the sector.

1.5 Operating Costs

Like Aer Lingus, the IHF believes that inefficient operating costs should not be passed onto passengers as higher charges. There is already a strong precedent for this approach in the telecom's regulatory regime.

1.6 Efficiency, Effectiveness and Quality

The IHF welcome agreement between various parties including Aer Lingus, Ryanair, Aer Rianta and the IATA in support of the introduction of a benchmarking exercise for assessing the efficiency of the airport operator. The agreement of the particulars of the benchmarking exercise should be subject to consultation with all interested parties. Aer Lingus also concurs with the IHF in maintaining that the current efficiency of Aer Rianta needs to be assessed as a starting point for benchmarking.

1.7 Scope for Competition

The IHF agrees with Ryanair that there is a need for increased competition in terms of terminal construction and operation, to induce competitiveness and subsequently, cheaper and more efficient air access. Both Ryanair and Aer Lingus concur with the IHF that more competition in providing airport services is needed to ensure efficiency.

1.8 Consultation

Given the differing positions regarding the determination of airport charges presented by the various interested parties in the submissions presented to the Commission for Aviation Regulation, the IHF is now even more convinced of the need for a process of statutory consultation, providing for independent arbitration by the regulating authority of any disputes or disagreements arising. This mechanism for consultation should also underpin any capital and operational expenditure plans.

1.9 Conclusion

The IHF welcomes this opportunity to respond to the initial submissions presented to the Commission for Aviation Regulation in relation to airport charges. The IHF believes that the proposed charging regime should address a number of facts as outlined above and in our initial submission, particularly the need to

reflect the importance of air access to the Irish economy and for effective and inclusive industry consultation about this vital issue.

[1] Dr. James McDaid, Minister for Tourism, Sport and Recreation ‘*End of Year Statement on Tourism Performance*’, 27th December 2000.

[2] www.eurotradeinfo.com

[3] Bord Fáilte

[4] Dr. James McDaid, Minister for Tourism, Sport and Recreation ‘*Tourism Industry Facing Changing Environment*’, The Annual Conference of the IHF, February, 2001.