

Submission to
Commission for Aviation Regulation
On
Proposed Maximum Levels
Of Airport Charges
By
Cork/South West Consortium

20th July 2001

1. Introduction

- 1.1 This submission is being made by the Cork Chamber of Commerce on behalf of a consortium of organisations in Cork and the South West Region. These interests cover the spectrum of economic, social and cultural development of the South West Region.

The constituent members are:

- Cork Chamber of Commerce
- Cork City Development Board*
- Cork/Kerry Tourism
- Cork City Challenge Ltd.*
- Cork Region Marketing*
- Cork Business Association
- Cork City Tourism
- Cobh & Harbour Chamber of Commerce
- IBEC – Cork
- Irish Hotel Confederation – South West

(*Appendix A)

- 1.2 This submission is being made because the above organisations feel that the Draft Determination on the Proposed Maximum Levels of Airport Charges published by the Commission pose a significant threat to the future viability of Cork Airport.

The South West Regional Authority also share such concerns and by agreement it is making a separate submission to the Commission.

- 1.3 This consortium of interests represent 3,600 businesses, apart from having the interests of the citizens at large in the region. As stated, the Consortium believes the Draft Determination in so far as it relates to Cork Airport would be detrimental to both the South West regions development and the ongoing viability of the airport.

Cork Airport is a key element of the infrastructure of the region, which has contributed significantly to its overall well being and any possible threat to its viability must be challenged.

- 1.4 Cork Chamber of Commerce has taken the lead in this submission because since the establishment of the airport in 1961, the Chamber's Transport Committee has focussed strongly on the airport and air

services. Indeed it can claim significant credit for the attainment of many of the facilities and services now enjoyed by airport users in the region.

1.5 The Submission focuses on the role of the airport in terms of national objectives and government policy, towards regional development and the extent to which the Determination impacts on them.

2. National Policy

2.1 The National Development Plan (NDP) 2000-2006 is underpinned by **key national objectives:**

- "Continuing sustainable national economic and employment growth"
- "Consolidating and improving Ireland's international competitiveness"
- "Fostering balanced regional development"
- "Promoting social inclusion"

We believe the existence and viability of Cork Airport is critical to the former 3 objectives in so far as they relate to the region. These objectives are further developed in terms of **5 strategic elements** in the NDP which include:

- "a major investment programme in economic and social infrastructure"
- "a commitment to better regional distribution of public and private investment"

2.2 The National Spatial Strategy which is currently being finalised in its introduction to regional development focuses on, inter alia:

- "Imbalance between and within the regions in the distribution of national economic progress"
- "The growth and expansion of the Greater Dublin area, giving rise to problems of congestion and housing shortage"
- "Rapid growth of major urban centres outside Dublin and their role in driving the development of their hinterlands and providing a counter-balance to Dublin"

In addition it emphasises the need for **competitiveness**, the role of '**regional gateways**' and particularly **the need to** "identify strategic or long term infrastructure to facilitate the development of the gateways".

We believe these are key issues for the development and competitiveness of the South West, Cork and Cork Airport.

3. South West Region

- 3.1 The South West Region is the second most important region in Ireland in terms of economic development and contribution to the national economy. It hosts approximately 65% of the Pharmachem industry and the only oil refinery/storage facility in the country, thus adding to its strategic importance.

It has a mix of quality overseas and indigenous businesses, a progressive port, quality shopping, and leisure facilities. The Pharmachem, ICT and Tourism sectors are major contributors to the economic well being of the region. The two aforementioned industrial sectors provide approximately 50% of industrial employment.

- 3.2 The region is the second most successful region outside Dublin, in attracting Foreign Direct Investment (FDI) and currently hosts 132 such projects (IDA planning – December 2000). These investments account for 19,615 jobs, (IDA Annual Report 2000) which is 38% more than the next region (Forfàs Employment Survey 2000). FDI businesses operate in a global economy and as such, are extremely airport dependent. Approximately 20% of Ireland's exports are produced in the South West region.

- 3.3 There is a significant area of the South West that is currently disadvantaged as a result of Government policy on regionalisation. With the particular need to maximise Objective 1 status within the EU, West Cork/South Kerry are now at the extremity of the larger Southern/Eastern Region and at the same time the only West Coast Region not benefiting from Objective 1 status.

The tourism industry is particularly important to this area, being worth £588 to the South West in 1999, and as such a viable Cork Airport, as the only airport with international connections in the South West region, is of critical importance. It should be noted that the most important tourism destination outside of Dublin is Killarney.

- 3.4 The Irish Tourism Industry Confederation Report on Spatial and Seasonal Spread of Tourism in Ireland identified the need for the development of a wider range of tourism centres. One of the critical

objectives is appropriate access transport. However, if air access costs to the South West are to be considerably higher than those charged elsewhere, the objectives cannot be achieved.

We have seen over the last few years, the successful development of Dublin as a Short Breaks, Conference, and Incentive destination. This has come about in part due to a combination of factors including cheap airfares and increased frequency of air services from Britain, Europe, and the USA. In fact, the competition between airlines on selected routes, especially from the UK, has resulted in very low fares, which has been a major factor in Dublin's growth. Witness the reaction of Ryanair to the arrival of GO on the Glasgow and Edinburgh routes.

Cork does not have this luxury. Airfares are already high, relative to Dublin, due to the lack of competition. There is no dual competition service to any international destination out of Cork. Cork has recently developed as a short breaks destination from the UK, which is a growing market. Any increase in access costs will only serve to portray Cork as uncompetitive, resulting in loss of tourism to the to the area.

It should also be noted that Cork has lost conference business as a result of the limited air access to the area. Again the proposed increases in airport charges may further compound efforts to develop Cork as a Conference Centre.

Tourism is price sensitive. Ireland is already seen as an expensive destination, when compared to other locations. Increasing access costs will impede growth in visitor numbers, with a resulting impact on jobs within the area.

Furthermore, if the airport charges proposed were allowed, it will have the effect of further exasperating regional tourism disparity in favour of Dublin.

- 3.5 Cork, as the 2nd largest city in the country and the provincial capital, is central to the region's development and welfare. Its present attractiveness as a location for investment is based on a number of key factors such as, the presence of an international airport, 3rd level education facilities, research institutes, good access and leisure opportunities.

3.6 Due to the over capacity of the Dublin region, Cork, and particularly metropolitan Cork, has assumed significant importance. In examining major counterbalances to Dublin, planners and the National Spatial Strategy have identified Cork as being central to any such strategy. History has shown that economic agglomeration is maximised when large units exist. Various corridors have been suggested in this regard, i.e. Limerick/Cork/Waterford, Galway/Limerick/Cork. The present Cork Strategic Plan 2020 that is being developed by both local authorities, encompassing a 30 mile radius of the city, will see the Cork Metropolitan Area's population grow to 425,000 approximately. This would show planned growth increases over the 20 year period of:

- Population: 80,000
- Jobs: 56,000
- Dwellings: 46,000

It is also suggested that the National Spatial Strategy could **add:**

- Population: 16,500
- Jobs: 6,000
- Dwellings: 7,500

At present there are also other major plans being finalised in the Cork area viz Docklands Development Study, Port Strategic Plan, County Development Plan, and Cork City Development Board Integrated Study.

Cork City Development Board, which is widely representative of the community, private, and public sectors in Cork, has recently published a draft of its 'Vision, Goals, and Objectives', which state inter alia:

"GOAL The City will have an access infrastructure appropriate to a high quality European Urban environment."

"Objective The City will have fast and frequent rail services to Dublin and Belfast, and internationally by air to all capital cities of the EU, with transatlantic connections also."

*** Cork is a candidate for the European City of Culture 2005.**

It is clear, therefore, that Cork is destined to play an even more important role in the future development of the regional and national economies.

4. Cork Airport

- 4.1 Cork Airport has played a key role in both the national and regional economies since its opening in 1961, which coincided with the initiation of Ireland's modern day economic development.

The Airport, through 40 airlines, facilitates services to the domestic market, to the UK and Europe. Passenger numbers have grown from 750,000 in 1994 to 1.7m in 2000 and are expected to grow to 2.5m in 2005. It services a catchment area across South Munster/South Leinster with a population of 670,000.

- 4.2 Investment at the Airport has always lagged behind passenger growth and the existing terminal, which now services 1.7m, was built to accommodate 1m passengers.

There are no sheltered walkways from the car parks, nor airbridges to the aircraft. These primitive conditions in an exposed site, coupled with Ireland's variable climatic conditions, make for an unacceptable level of standards and service in this day and age. We acknowledge that the current investment programme is belatedly designed to address these issues, **but this however is largely catch up investment.**

- 4.3 The Airport also suffers from an inadequate marketing budget. It suffers from competition for resources from Dublin Airport, serving the largest region, and Shannon, as a matter of political policy, both of which receive priority to the detriment of Cork.
- 4.4 Despite the disadvantages outlined above, Cork Airport is an efficient entity, as the Commission's benchmarking research has shown. It is more efficient than Dublin and significantly more efficient than Shannon. This research shows that in terms of operating expense per Work Load Unit (WLU) Cork is 44% more cost efficient than its UK peers, (at 14.8 euro av.) and at 8.2 euro is, below the European peer average of 13.6 euro.

- 4.5 Cork Airport is a key item of regional infrastructure that, despite being deprived of essential investment, operates efficiently and provides a range of services that have contributed towards the development of the national and regional economies. **Any proposal that would place unfair and disadvantaged costs on Cork Airport would have extremely serious repercussions for the region and its potential to contribute to balanced regional development, in addition to the region's potential to provide a counterbalance to the over capacity of the greater Dublin region. Without a competitive Cork Airport such policies will not work.**
- 4.6 The international connections emanating to and from Cork Airport have greatly contributed to the success of the adjacent Cork Airport Business Park. These facilities have enabled IDA Ireland, to attract considerable international services projects to the Park, particularly in the area of shared services and customer response facilities. These and other successful FDI have resulted from IDA Ireland's ability to exploit the advantages of an international airport.
- 4.7 The economic importance of Cork Airport to the South West region was identified in a report by Glashart, Moloney, O'Leary and Donnellan in 1996. At that time tourist spending by airport passengers had a total value of £160m, and this spending contributed to the maintenance of over 3500 jobs. There is little doubt that with the economic growth of recent years that this contribution has increased significantly.
(See Appendix B)

5. Criteria for Determination

Under Part 3, Section 33 of the Aviation Regulation Act 2001, the Commission for Aviation Regulation is obliged to have due regard to regulatory objectives in respect of Airport charges (and under Section 36 a further 7 regulatory objectives must be so regarded in respect of aviation terminal charges).

We believe that in regard to efficiency, effect on the region, operating costs, service level/quality and international competitiveness that, while acknowledging the Commissions research, we have in this submission addressed these issues. We have also demonstrated that **Cork Airport is both an efficient entity and a vital need in the region, which has not adequately been taken into consideration in arriving at the Draft Determination and which would seriously damage its competitiveness.**

6. Determination of Airport Charges

- 6.1 In the 21st century air access for Ireland, as a small country on the periphery of Europe, is an essential need. Furthermore, given its size and population dispersal, due regard must be given to the impact of such on each of the 3 state owned airports while determining airport charges.
- 6.2 In examining the process adopted by the Commission in determining airport charges we accept its rationale in relation to a number of the statutory factors i.e.
- We favour incentive regulation and consider that the CPI-X price cap is the appropriate means of its application. **Use of this formula should, however, be coupled with strict monitoring of the quality of service provision by reference to service level agreements negotiated by Aer Rianta with user airlines.**
 - We favour the use of historical costs for the valuation of airport assets, with adjustments for depreciation and inflation. However **the regulatory asset base (RAB) should consist only of the current assets necessary to support the services provided to all airlines.**
 - We recognise the need for Aer Rianta to secure a reasonable rate of return on capital employed and share the Commission's view that it should allow an ROR equal, over the medium term, to its cost of capital. Given that airports are, or should be, relatively low-risk businesses, and bearing in mind also that state-owned companies are unlikely ever to default, we consider that it should be possible to borrow on terms comparable with the Government's own cost of borrowing. It should be possible therefore to borrow at euro rates below the projected 8%. **This could be a critical issue in determining the ROR and hence proposed changes.**
 - We believe that profits from all non-core activities directly related to an airport should be used to the benefit of the airport's customers, the airlines, passengers and freight forwarders.
- 6.3 Airlines should be charged only for services and facilities that they need and use. **They should not be required to pay for any facilities that are not yet operational.** The formula should be changed, allowing charges to be adjusted, as and when new facilities are brought into use.

We are also opposed to all forms of differential pricing for identical airport services, on the grounds that the provision of services by airlines should be demand-led.

- 6.4 Given the scale of investment for the three state airports (as set out in Annex IV) we fail to understand how the investment planned for Cork, at approximately £100m (compared to £80m for Shannon and £500m for Dublin) can now lead to such a discrepancy in the proposed charges. **Cork Airport has a low asset base when compared to the other two airports and setting higher charges for Cork is illogical.**
- 6.5 We note that arising from Section 33 (e) the Commission's suggestion that, because Dublin is nearing capacity, it is considering whether new commercial activities should be excluded from the regulatory till. We feel it will be impossible to separate revenue streams based on different investment. It would also appear that the possible introduction of a sub-cap at Dublin Airport in regard to off peak flights is designed to accommodate the demands of low cost airline operations and as such this facility should be available at each of the three state owned airports.

As requested, we have considered the Commission's questioning of incentivising off-peak charges in Cork. We feel that after the morning peak, such potential exists in mid-afternoon and particularly at weekends.

7. Conclusions

- 7.1 We submit that the Commission has not taken sufficient cognisance of Government policy and strategy as outlined in the NDP on 'balanced regional development' and the NSS in the need to provide a 'counterbalance to Dublin' in arriving at its conclusions, in so far as Cork Airport is central to such policies, **which is a major shortcoming**. There is no reference to social responsibility which could be considered under Section 33(J) – "National Obligations".
- 7.2 Dublin and Shannon Airport have had significant developments, funded at a time when Cork Airport should also have had major investment and when it's growth in traffic numbers merited investment and mirrored the overall growth of the region. Now that Aer Rianta has to

economically fund its investment programme, Cork which lagged behind, is expected to absorb exorbitant landing charges that are likely to seriously damage its operational viability and place it at considerable disadvantage. This is primarily basic infrastructure which should have been in place before the present situation arose.

- 7.3 Cork Airport appears to be penalised for being amongst the most cost efficient and effective airport amongst its peers in European airports and in fact it is 44% more cost efficient in terms of operation costs than it's UK peers, whilst at the same time being inordinately expected to pay for essential catch-up investment. **In such circumstances it is both illogical and naive to think Cork can accept a 94% increase in charges without being adversely affected competitively.**
- 7.4 Cork Airport Terminal Building was built to cater for 1m passengers, whilst now catering for 1.7m passengers. We note that no reference has been made to this while referring to Dublin Airport's capacity problems and the introduction of a sub-cap there for commercial developments.
- 7.5 We are at a loss to understand how the Commission feel the proposed pricing structure will work with such a disparity between the airports which are serviced by the same carriers. We see potential for such carriers to reduce/eliminate services from Cork and adding to traffic at Dublin Airport. **This is inevitable given the state of the aviation industry and a proposed 44% differential between Cork and Dublin.**
- 7.6 We note that the proposals are for maximum charges and that Aer Rianta "is free to price below the maximum or to use allowable revenues to fund investments which are not strictly necessary". We note that no reference is made disallowing any of Cork proposed investment.
- 7.7 We note that cargo investment appears to be omitted from the Cork CAPEX (in fact we don't know exactly what is included?) and as this is an identified market opportunity some attention should be paid to it. **Cargo contributes to the Work Load Unit and we question why this has been disallowed.**

- 7.8 Efficient use of resources would suggest that the three airports would be best regulated as a group particularly if consideration is not given to **positive discrimination** to regional airports to achieve balanced regional development.
- 7.9 Overall, the Commission's Draft Determination is not very transparent and we can only surmise that the determination has been finalised on the basis of Section 32(4) by reference to the 'aggregate of amount', as Shannon appears to be an exact average of the proposed Dublin and Cork changes.
- 7.10 We have now cause for concern also that the Commission may develop unfavourable proposals that could affect Cork Airport arising from its review of the Irish Aviation Authority charges as it is empowered to do under the Section 36 of the Act, thus further adding to regional disadvantage.

MEMBERS OF THE CORK CITY DEVELOPMENT BOARD

Local Development

Cork City Partnership

Cork City Enterprise Board

State Agencies

Southern Health Board

FAS

City of Cork Vocational Education Committee

Enterprise Ireland

I.D.A. Ireland

South West Regional Tourism Organisation

Department of Social, Community, & Family Affairs

Social Partners

Community and Voluntary Organisations

Trade Unions

Employers and Business Organisations

Representing: Cork Chamber of Commerce, IBEC, Irish Hotels Federation,
Construction Industry Federation, Irish Institute of Transport.

Chaired by Cllr. J. Corr

Cork City Challenge Ltd (CCC)

CCC is a company established by Cork Corporation, Cork Chamber of Commerce, and Cork Business Association to manage the office of the City Centre Co-ordinator. The role of the Co-ordinator is to ensure the city centre is an attractive place to visit, shop, work, live and socialise in.

Cork Region Marketing (CRM)

CRM is a company established by private and public sector tourism bodies in County Cork to co-ordinate the marketing of the Cork Tourism Product.

Dr. Eoin O'Leary of the Department of Economics in University College Cork, who has recently undertaken further work on the economic impact of Cork Airport, estimates that, based on 1999/2000 data, a reduction in passenger growth, as a result of the impact of increased charges, would have significant consequences. For example, a 4% reduction would reduce non-resident visitor spending by approximately £6.8million, which is linked to approximately 220 jobs. If purchases by the airport were reduced by a similar amount (4%), this could result in a loss of a further 55 jobs.

This assumes that marginal effects are equivalent to average effects, which is one of the main criticisms of the input-output approach. If marginal effects are in fact more/less, then the estimated reduction would be more/less.