

RE: PROPOSED MAXIMUM LEVELS OF AIRPORT CHARGES

DRAFT DETERMINATION /COMMISSION PAPER CP6/2001

Bord Failte Comments (DRAFT 040701)

Bord Failte, as the state agency responsible for the promotion of tourism to Ireland, wishes to comment on a number of issues and concerns arising from the Draft Determination. While not a direct airport "user", Bord Failte has identified aspects of the Draft Determination which have the potential to negatively impact on the future development of overseas visitor traffic by air to Ireland.

1. Bord Failte is of the view that the Draft Determination, by being based on an interpretation of the economics of airport provision and services, without due consideration of the pivotal infrastructure role of airports to the wider economic life of the country fails to adequately take account of market conditions.

The Commission's discretion under Section 33 of the Act is recognised whereby it can determine the extent to which each of the 10 specified factors contained in the Act contribute to the achievement of the statutory objective. Bord Failte is concerned that the process and parameters of the Commission's role does not adequately allow for the addressing of the importance of regional airports, particularly in light of the trend towards shorter holidays where accessibility and time elements are coming to the fore.

It would appear that the determinations have been largely arrived at on the basis of the operational costs and revenue income streams of each of the three airports under review without reference to wider economic impacts and consequences.

2. From a tourism perspective Ireland, as an island destination, is almost unique amongst its European competitor destinations. Ireland depends largely, and increasingly, on air services as a mode of access and more especially from the source markets of mainland Europe and North America. Without the options of land transportation and with the increasing market share shift to air travel, reflecting market trends for shorter leisure trips and the lower real cost of air travel, tourism growth to Ireland has been driven by the expansion of air service capacity and routes. This will continue to be the case in the future.

Therefore, as a destination considerably dependent on air access we would argue that the determination of airport charges for the use of a State-funded infrastructure asset should not be based on the assumption of a normal competitive environment and must take account of broader economic considerations.

3. The determination arrived at in respect of proposed maximum charges at Dublin, Shannon and Cork airports, which allows for significant increases on the current level of charges, will likely result in:
 - higher costs for the traveller and as such reduce Ireland's competitiveness as a holiday destination;
 - failure to achieve the targets set for tourism - which is currently experiencing a serious downturn and faces significant challenges to recover its growth rates;
 - erode the stimulative impact of low cost carriers operating into Ireland and the promotional fares offered by full service carriers; and
 - a further distortion of traffic between gateways, with Dublin continuing to increase its share of arrivals - this is in stark contrast to Government policy, as expressed in the National Development Plan (NDP), and the targets set out for the dispersal of tourism within the country.

4. If Aer Rianta were to implement the maximum charges as presently proposed the negative impact on tourism would be very serious. Against a background of a decline in arrivals in 2001, the industry may well need to achieve cumulative growth over the next two years in the order of +20% to +30% in order to recover to the targeted growth as set out in the NDP.

A key strategic element of tourism development is improved, more competitive air access. The target is to generate incremental tourist arrivals both on existing services and on new routes. The historical evidence unequivocally demonstrates the significant growth that can result from the introduction of new carriers and/or increased competition on existing routes. The latter is amply demonstrated by reference to the traffic growth in recent years on routes from London, Paris and Brussels. The current route networks between Ireland and Britain, mainland Europe and the USA, serve most of the major catchment areas and future tourism growth will in the main come from these routes rather than on an expansion of gateways. The new charge structure is more likely to discourage new route development than heretofore.

5. Bord Failte acknowledges that the role of the Regulator is to set maximum prices and that the operator (Aer Rianta) and shareholder (the Government) are not precluded from offering discounts and/or incentives subject to relevant legal obligations.

In this context, the sub-cap proposed for Dublin - non-peak period charges - is most welcome.

In addition, Bord Failte would propose that the Regulator introduce another sub-cap to take account of the varying requirements of airline users. Specifically, lower service level requirements of carriers should be acknowledged by lower charges - *"it would be expected that lower cost facilities would be available to users at lower prices"*(page 17). Typically low fare carriers and their customers are content with a lesser range of facilities and lower service levels. This should be recognised and accommodated by means of a sub-cap.

Furthermore, the more efficient use of the resource by carriers, e.g. faster turn-around times and lesser demand on facilities, is not recognised in the formulation of charges. This is especially pertinent in the case of Dublin airport where there are capacity constraints and significant future CAPEX requirements.

6. Bord Failte challenges and/or seeks clarification on a number of specifics raised in the Draft Determination, as follows:

- the choice of comparator airports for the bench marking exercise does not seem to take account of the composition of air passenger traffic by purpose of visit. Traffic through Irish airports is characterised by a higher level of discretionary passenger traffic, i.e. those traveling for leisure purposes, than is the case at most other European city (non resort) airports. The bench marking exercise focussed on city airports, with the exception of Luton (LTN) - historically a holiday charter, and more recently a growing low cost airport. As the analysis only takes account of the share of international passenger traffic and not purpose of travel, the conclusions run the risk of assuming that the traffic to Ireland will exhibit the same price elastic characteristics as traffic for purposes other than leisure to comparator city airports.
- the exclusion of Aer Rianta International income from *"the regulatory till"* is questioned. The investment in aeronautical related enterprises overseas by Aer Rianta has been effectively funded by resources associated with its airport operations in Ireland and engages management resources based in Ireland. These activities, it can be argued, have effectively diverted resources in the past, therefore it would seem more in keeping with the original rationale for this diversification

within core company activities to take current and future income earned into account in the determination. Surely, the benefits to be derived from the strategic investment in Aer Rianta International and associated activities should directly accrue to enhancing the efficiency of its' core function. Similarly, if Aer Rianta is to develop future commercial revenue streams should these not be taken into account in the operation of the airport.

- while the reduction of proposed CAPEX is recognised, it is the view of Bord Failte that future plans and cost options should be dealt in a comprehensive and transparent manner involving discussion and responsiveness to the needs of key user operators in so far as it is practical and appropriate.
- greater clarification of the mechanism for the monitoring of the efficiency improvement targets as set out for Dublin and Shannon, together with an indication of the penalties for failure to achieve such targets, would be welcomed.

7. While Bord Fáilte recognises the desirability of the development and operation of cost-effective airports that meet the requirements of users, we assume that the main shareholder is not constrained, outside of the regulator's remit, in encouraging cross-subsidisation in pursuance of regional goals.



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Chief Executive

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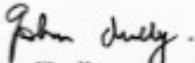
Dear Mr Prasifka,

While Bord Fáilte and its parent Department- the Department of Tourism, Sport & Recreation have made written submissions in relation to your document (CP3/2001), I would very much welcome being given the opportunity to meet with you to discuss Bord Fáilte's views in the context of the goals set for tourism in the Government's current National Development Programme and the role which air access can play in achieving the challenging targets.

Almost £3 billion has been invested in product development in the tourism sector over recent years and over 150,000 jobs are dependent on tourism. The Government's target is to increase visitor numbers from 6.2million in 2000 to in excess of 8 million visitors by 2006.

Overall trends indicate an intensifying aviation environment in Ireland's source markets. Leisure demand patterns also strongly point to an increasingly crucial role to be played by air access if the Government's objectives and tourism's needs are to be met. It is in this latter context that I would appreciate a meeting with you.

Yours sincerely


John Dully
Chief Executive

