

**Mr Willaim Prasifka
Commissioner for Aviation Regulation
36 Upper Mount Street
Dublin 2.**

26th July 2001

Our ref: IRI 031

Dear Mr Prasifka,

Determination of the Maximum Levels of Airport Charges

The Irish Hotels Federation (IHF) welcomes the opportunity to respond to the Commission Paper CP6/2001 relating to the Commission's draft determination of the maximum levels of airport charges. The IHF has been pleased to be involved in the Commission's consultation process and has to date prepared two submissions and made an oral presentation outlining its views on the economic regulation of airport charges in Ireland.

It is disappointing that the Commission's draft determination fails to address the full range of issues outlined in the Consultation Paper CP2/2001, to which the IHF and other interested parties gave their responses. It is also notable that the draft determination lacks transparency on the limited number of issues it chooses to address. Moreover, the IHF is concerned that, overall, the draft determinations appear to favour Dublin airport to the detriment of Cork and Shannon airports and, with specific regard to the issues addressed, the IHF would appeal to the Commission to reconsider three points in particular, namely relating to capital expenditure, low cost air access and regional airports.

In appealing to the Commission to reconsider these points, the IHF would like to take this opportunity to highlight the obligation placed on the Commission under Section 33 (d) and (h) of The Aviation Regulation Act, 2001. These provisions of the Act clearly state, "*In making a determination the Commission shall aim to facilitate the development and operation of cost effective airports which meet the requirements of users and shall have due regard to: -*

(d) the contribution of the airport to the region in which it is located

(h) the cost competitiveness and operational efficiency of airport services at the airport with respect to international practice."

The IHF is the national representative body of the hotel and guesthouse industry in Ireland. With a workforce of over 60,000 people and representing 900 members, whose properties comprise of 43,000 guestrooms, the IHF is the largest representative body in the Irish tourist industry. The tourist industry and its customers are major users of Irish airports, therefore, the IHF, and those whom it represents, would also like to remind the Commission that in making its determination, they are entitled to have their requirements and interests met.

An efficient, safe, reliable and competitive air transport service, with ease of access to destinations throughout the country, is a central requirement of the IHF and its members. Such a service must therefore ensure the following:

- ◆ adequate capacity at airports to cater for existing and projected passenger traffic;
- ◆ competitive user charges to reflect the fact that Ireland is a peripheral location in an extremely competitive market, which is highly dependant on air services for access to Irish markets;
- ◆ efficient low cost air access option to regions throughout the country.

Capital Expenditure

Analogous to road and rail infrastructure, the ownership of, and responsibility for, air infrastructure should remain with the State, with an effective provider secured to manage it operationally. The IHF strongly believes that the costs of capital expenditure should therefore not be borne by the passenger through airport charges, but by the State. Such capital expenditure plans should be subject to consultation with the Government, Regulator, airport operator and other industry and carrier representative organisations.

Given the importance of air transport to the Irish economy, particularly the tourism industry, efficient and competitive air access is essential, with charges to passengers determined by market forces only and not dependent on funding capital expenditure plans as advocated by the Commission. The IHF is particularly alarmed at the Commission's unjustified proposal that future capital expenditure of IR£700m should be included in the Recoverable Capex Programme and therefore, passed onto air transport users in the form of airport charges.

The IHF submits that the Commission is not complying with the obligation placed on it by Section 33, "***to facilitate the development and operation of cost effective airports which meet the requirements of users***", as it is largely ignoring the requirements of users, the contributions of airports to the regions and the cost competitiveness and operational efficiency of airport services in its blind adoption of a reasonable rate of capital employed formula.

The formula/method suggested merely bolsters a monopoly situation, whereby the airport authority can expend virtually whatever it decides and is entitled to impose charges to procure a return on much of the capital invested. It is absurd and contrary to the provisions of Section 33 for the Commission to support such a method, particularly as the views of users on their requirements were never sought in the past before expenditure took place. In fact, many of the submissions made to the Commission by users clearly disagree with much of the existing and proposed capital expenditure. Until such views of users are obtained, embraced and evaluated, the Commission is not in a position to determine the needs of users and therefore, comply with its statutory obligation in making a determination *i.e.* to facilitate the development and operation of a cost-effective airport that meets the requirements of users.

The IHF believes that the capital expenditure on airports, which are part of the essential infrastructure of a State, should not have as their objective the earning of a commercial return as would be appropriate in a commercial enterprise operating in a competitive environment.

Due to the absence of any likelihood of a commercial return, no commercial entrepreneur would invest in Cork or Shannon airports, the level of capital already expended or planned. Therefore, investment in these airports cannot be viewed as anything but a national infrastructure investment to maintain and encourage the development of the regions in which these airports are situated. The tourism industry in the regions served by these airports is particularly dependent on their throughput. Once expended, the investment in these airports should be written off and not treated as an asset from which a rate of return on capital employed is expected. Again, the Commission is required in making its determination by Section 33 (d) to, ***“facilitate the development and operation of cost effective airports which meet the requirements of users and shall have due regard to the contribution of the airport to the region in which it is located”***.

The IHF supports the introduction of a benchmarking exercise, whereby independent specialists review the airport operator’s current inefficiencies such as ‘gold plating’, where they exist. Such inefficiencies should be taken into account when calculating the appropriate level of airport charges.

Option of Low Cost Air Access

Given the prominent role played by air transport in overcoming the country’s peripherality and bolstering the Irish economy, of which the tourism industry is a key element, it is vital that air transport access be as appropriate to passenger needs as possible. Section 33 of the Act places an obligation on the Commission to meet the requirement of such users. Therefore, the option for passengers to avail of low cost air transport in Ireland’s airports is a principle strongly purported by the IHF. Moreover, the IHF calls on the Commission to comply with its statutory obligations and to clearly define how its’ proposals are meeting the best interests of such passengers, which are major airport users.

In its submissions to the Commission, the Competition Authority highlighted the contribution low-cost airline operators have made to the industry and the benefits enjoyed by the consumers of the service. Similarly, Bord Fáilte highlighted in its submissions that over 70 *per cent* of all tourists presently arrive in Ireland *via* air access and the continued growth of Ireland's tourism industry is therefore dependent on the competitiveness of air services. It is essential that the Commission complies with its statutory obligation (Section 33) and ensures that the interests of these airlines and their passengers are met by the Commission in its deliberations.

The Commission's proposals of applying the single-till principle to assess the airport operator's income and introducing a sub-cap within an overall price cap for off-peak use of the runway in Dublin airport are welcomed, although this sub-cap should be further extended to also include both Cork and Shannon airports. In keeping with passenger needs, a low cost pier should be provided at Dublin airport for airlines, which are interested in providing low cost air services from this facility. Such low cost facilities are provided to airlines throughout Europe and would be a welcome development at Irish airports.

Regional Considerations

Airports represent important drivers of sustainable economic growth, encouraging tourism, commercial and industrial development in Ireland. Government policies for balanced regional growth and development underline the important role to be played by airports such as Cork and Shannon in acting as catalysts for economic development nationwide. Such Government policies ought to be supported and wholly embraced by the airport operator.

The wider economic implications of airports should not be underestimated by the Commission, which should ensure that greater efforts are made to encourage better regional distribution of visitor traffic through the incentivisation of Cork and Shannon airports. Such a distribution of air traffic is made all the more necessary given that Dublin airport is currently suffering congestion problems, having handled 76.3 *per cent* of the country's total airport traffic in 2000.

The Commission's draft determination of applying price caps to average revenues per Work Load Unit (WLU) at each of the airports is of concern to the IHF, particularly as the caps in Cork and Shannon airports are higher than Dublin airport, thereby making them potentially less competitive. Airport charges at airports such as Cork and Shannon should be benchmarked against charges at European regional low cost airports such as Dinard or Carcassoone in France, or Brescia and Pescara in Italy.

It is the view of the IHF that the Commission is not complying with the obligation placed on it by Section 33 (d) of the Act, which states, *"in making a determination the Commission shall aim to facilitate the development and operation of cost effective airports which meet the requirements of users and shall have due regard to the contribution of the airport to the region in which it is located"*, in arriving at this conclusion and calls on it to rectify this oversight its final determination.

Conclusion

The IHF has greatly welcomed this two phased consultation process by the Commission for Aviation Regulation in its determination of maximum airport charges in Ireland. However, the IHF would like to stress to the Commission that the value of such a consultation process may be lost if the input from consulted parties is largely or wholly ignored. Such action by the Commission would clearly be in contravention of the obligations placed on it by the Aviation Regulation Act 2001. Therefore, the IHF appeals to the Commission to reconsider the issues, which have been outlined above and also presented in previous submissions, particularly the importance of air access to the Irish economy and the need for air transport to be competitive, efficient and accommodating to user's needs.

Yours sincerely,

JOHN POWER
Chief Executive
Irish Hotels Federation