

Údarás Réigiúnach an Iar Dheiscirt

South West Regional Authority

Written Submission

to

Irish Aviation Commission

Regarding

Draft Determination of Airport Charges

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Name of Organisation

South West Regional Authority

Contact Details for Organisation

Address: South West Regional Authority,
Innishmore,
Ballincollig,
Co. Cork,
Ireland.

Tel: +353 (21) 4876877

Fax: +353 (21) 4876877

E-mail: info@swra.ie

Website: <http://www.swra.ie>

Contact Person Regarding Submission

Mr. John McAleer – Director

Email: jmcaleer@swra.ie

Nature of Organisation

The South West Regional Authority was established in 1994. It is a statutory body, as defined in the Local Government Act, 1991 - Regional Authorities (Establishment) Order, 1993. The Authority is comprised of 24 elected representatives from its constituent Local Authorities of Cork Corporation, Cork County Council and Kerry County Council.

Introduction.

The South West Regional Authority, established on foot of the Local Government Act, 1991(Regional Authorities) Establishment Order 1993, is the NUTS 3 Regional Authority covering the Counties of Cork and Kerry and the Cork County Borough. The region has a physical area of c. 12,500 Sq. kms and a population of approximately 560,000.

The Authority has, inter alia, responsibility for Strategic Planning, co-ordination of public services and to also advise the government on the preparation of the National Development Plan and the operation of the European Community Support Framework. The Authority is represented on the Monitoring Committees for the various Operational Programmes under the National Development Plan.

As an integral element of its statutory functions, the Authority in 2000, established the Cork Airport Consultative Committee with representation of key state and private sector agencies in the region. The role of this committee is to promote the development of Cork Airport as a key element of the regional physical infrastructure.

In 1996, in the Regional Authority's Strategic Plan 1996-2001, the Authority clearly identified the importance of Cork Airport to this region, noting the importance of access points, for foreign tourists, as essential to maintaining the importance of the tourist industry, which is a key element of regional GNP.

The importance of Cork Airport to the regional economy was again highlighted in 1999 in our submission for the National Development Plan and Community support Framework 2000-2006. Wherein it was noted that:

“Air access is a very high priority for the Regional Authority. The continued development of the South West is dependant on excellent levels of national and international access. The marketability of the region in terms of inward investment and tourism development is highly dependent on the degree of access through the two airports at Cork and Kerry.

Cork Airport has been adept in its response to the dynamic forces that influence the industry in which it operates. In recent years the most notable development in this regard has been the completion of the final phase of the new passenger terminal building in 1994. This addition has greatly enhanced the Airport's ability to handle an increasing volume of passenger traffic. A fitting reward to mark this development is the fact that 1996 saw Cork Airport handle in excess of 1 million passengers for the first time.

As the major airport in south Munster, Cork Airport generates a considerable amount of economic activity in the South West Region. The Airport's presence plays a major role in aiding the establishment of industry in the area by providing an important access point for business people and a gateway to foreign markets for actual and potential exporters from the region. The importance of this aspect of the Airport is seen through the continuing expansion of freight handling facilities and by the fact that nearly 50% of all passenger traffic is business related. Furthermore, tourist traffic through the Airport also has a substantial economic impact in the region.

Cork Airport has a strong potential to attract transatlantic services from the USA. These services would greatly enhance the attractiveness of the South West Region as a tourism location and more importantly as a region for inward investment.”

The report then went on to make recommendations in regards to an investment programme to meet ongoing needs created by the incremental growth of traffic through Cork Airport

It then identified the strong role for Cork Airport in the promotion of a greater Regional Spatial Balance and noted that:

“Growing levels of congestion at Dublin Airport can be alleviated through the greater use of Airports such as Cork and Kerry for direct flights, avoiding the over concentration on the Dublin hub. This would contribute to the attractiveness of the South West as an investment and tourism location.”

The economic importance of Cork Airport to this region has been identified in a recent report by Kavanagh, O’Leary and Shinnock “The role of Cork Airport in Regional Development” which estimates that the airport has doubled its contribution to the regional economy, since 1995. This suggests that the airport now contributes approximately £320 million per annum and supports the employment of up to 7,000 people in the region.

The South West Regional Authority notes with considerable concern the proposals contained in the Commission for Aviation’s Draft Determination of Airport Charges and questions the rationale of your approach.

We submit that this determination will, if adopted, constitute a major constraint on the growth and development of Cork Airport and consequently on the regional economy of the South West.

Furthermore we strongly content that **the Draft Determination clearly fails to have due regard of the terms of the AVIATION REGULATION ACT, 2001** wherein under Section 33 of such Act, it is required that in relation to the making of a determination in respect of airport charges, 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 inter alia:

- **the contribution of the airport to the region in which it is located**
- **the level of income of the airport authority from airport charges at the airport and other revenue earned by the authority at the regulated airports or elsewhere,**
- **the level and quality of services offered at the airport by the airport authority and the reasonable interests of the users of these services,**
- **the cost competitiveness and operational efficiency of air-port services at the airport with respect to international practice**

Section 36 of the Act additionally requires that in making a determination, the Commission shall aim to facilitate the development and operation of safe, cost-effective terminal services which meet international standards and shall have due regard to

- the level of the Authority's income from aviation terminal services and other revenue earned by the Authority generally
- the cost competitiveness of aviation terminal services with respect to international practice.

Submission to the Commission

The South West Regional Authority has addressed its submission in terms of the considerations as set out in the statutory requirement of Section 33 of the Aviation Regulation Act, as follows:

1. The contribution of the airport to the region in which it is located

The economy of the South West Region is largely based on two major sectors, both of which are highly dependent on the services provided at Cork Airport.

These sectors are:

- Internationally Traded Multinational Industries in the Chemical, Pharmaceuticals and Electronics Industry and
- Tourism.

The importance of these industries is clearly demonstrated by the divergence in the South West between the Value of Gross Domestic Product (GDP) and Gross National product (GNP), where GDP is approximately 20 % higher than the level of GNP.

This disparity, the most notable in the State, is due to the activity level within the region of the foreign owned, Airport dependent, multinational sector. This sector provides 49 percent of regional industrial employment, produces 23% of all the value added in state, and is particularly concentrated within the Greater Cork Area.

The South West Region (116.3%) has, together with the greater Dublin - Mid East Region (119.3%), a higher than national average Gross Domestic Product (GDP) per capita. However in the case of the South West, Regional Gross National Product (GNP) per capita is estimated at 96.2% of the national average. These figures highlight our dependence on airport related economic activities.

The South West Regional Authority strongly contend that any action taken by the Aviation Commission directed at undermining the viability of Cork Airport constitutes a direct threat to the overall economy of this region with potentially severe consequences for the overall regional economy. This statement must be regarded in the light of the Multinational Sectors importance, the inward tourism revenues and the dependence of the indigenous non-traded sector of the regional economy on the former sectors.

Government's Commitment to Regional Spatial Balance.

In the Irish National Development Plan 2000- 2006 (Para 2.1) it states:

"The following key national objectives will underpin the strategy for the National Development Plan (NDP) 2000-2006:

- ***continuing sustainable national economic and employment growth;***
- ***consolidating and improving Ireland's international competitiveness;***
- ***fostering balanced regional development;***
- ***promoting social inclusion."***

Furthermore the National Plan also referred to the Anti-Poverty Strategy which had also identified marginalised rural communities throughout the country. While these are more prevalent in the Border Midland and West Region, the Southern and Eastern Regional Development Strategy (2000) also identified specific remote and disadvantaged areas in that Region. These remote and disadvantaged areas were specifically identified as being areas of West Cork and South Kerry, the Duhallow area of north Cork and parts of County Clare.

Developmental priorities for the South and Eastern Region(NUTS 2) include actions to:

- **Consolidate and build on the Region’s recent economic performance, especially regarding employment and reductions in long-term unemployment, thereby maintaining the Region’s key role in national economic competitiveness.**
- **Address urban congestion and general bottlenecks to growth, particularly as regards economic and social infrastructure and human resources;**
- **Further develop counter-balances to Dublin, relieving pressure on the capital and its hinterland, and distributing growth more widely throughout the Region;**
- **Support the further development of agriculture, agri-business and the seafood sector;**
- **Promote social inclusion in deprived urban and rural areas; and**
- **Maintain a viable rural economy.**

Again at paragraph 3.15 referring to the role of Gateways in Development, the National Development Plan states the key determinants of sustained economic performance both nationally and at regional level, the topmost priority is stated as being **ease of access to domestic and foreign markets;**

The Plan notes that the areas best positioned to underpin development are generally the larger urban centers, such as Cork City, which also serve as development Gateways. These are centers, which have a strategic location relative to the surrounding territory, possess good social and economic infrastructure and support services and have the potential to open up their zones of influence to further development by providing transport links with contiguous zones. The common attribute of Gateways is that they are the centres which are strategically placed to drive growth in their zones of influence, generating a dynamic of development which embraces the complementarity between city, town, village and country. Noting that **“critical mass is a key consideration in the evolution of such Gateways, along with location and access to the wider domestic and international markets.”**

At paragraph 3.24 the National Development Plan notes that *If overall Regional Development Policy is to be successful, it is essential that the **existing engines of growth are not impeded by capacity constraints**. As such, in fostering national competitiveness and **balanced development across both regions** and in the more remote areas of the regions, the investment needs of existing large urban centres will have to be comprehensively addressed. In this regard, the constraints emerging in Dublin and, to a less acute extent, in the other large urban centres (i.e. Cork, Limerick, Galway and Waterford) must be urgently tackled.*

The South West Regional Authority views the proposals as contained in the Aviation Commissions Draft Determination as being directly likely to impede the growth of Cork Airport which is clearly a principal engine of growth in the South West and as such it absolutely fails to respect one of its primary Legislative requirements.

2. The level of income of the airport authority from airport charges at the airport and other revenue earned by the authority at the regulated airports or elsewhere.

The enabling legislation clearly offers an option to the Aviation Authority to take the costs at the three State airports into one operational till. The South West Regional Authority submits that in view of the fact that the Airport Authority, Aer Rianta, is a State Monopoly, to act in any manner other than considering its operating costs and financing as unitary is a perverse means of differentiating operating charges and in this light constitutes an artificial input to regulation.

We also contend that earlier investments at Dublin and Shannon airports, which were funded by the National Exchequer are now mitigating against Cork airport which had suffered a number of delays in its capital investment programme.

We question the method of calculation in respect of the draft maximum costs proposed and we note that charges per unit are recommended, in the Draft Determination, as follows:

Airport	£	Euro
Dublin Airport	£ 4.96	(€ 6.30)
Shannon Airport	£6.05	(€ 7.68)
Cork Airport	£ 7.15	(€9.08)

This Authority understands that a very complicated process was undertaken by the Aviation Commission, involving estimations of capital investment requirements at each of the three Airports, estimations of projected passenger numbers and freight tonnages, passing through each airport.

We are concerned that despite such high levels of financial projections and calculations that the Commission emerged with figures that possess an uncanny and incredible numerical association, in that the Shannon Figure is a precise average of the Cork and Dublin Figures

(4.96 + 6.05 + 7.15) = 18.16 18.16 divided by 3= 6.05 = Shannon price

We submit that it is incredulous that any scientific approach to these calculations could result in such a co-incidental figure. This clearly reflects the long-standing approach to the sanctity of Shannon and the importance of continuing the dominance of the Dublin Air Hub.

Therefore before finalising your Determination we request that the Commission publishes its calculations and demonstrates in a transparent fashion how these calculations were made.

The South West Regional Authority recommends that while the Airports are under one ownership, that a common accounting approach should operate and that a basic approach should be that of operating one standardised cost basis, calculated on all capital investments dating back five years and averaged over the three airports. We also note that the operational budget at Cork Airport for marketing is significantly less than that at Shannon.

We recommend that with a view to meeting Government stated policy of achieving balanced regional development, that a levy or tax be placed on Dublin airport and a corresponding subsidy be provided at Shannon and Cork Airports to allow for cheaper Airport Charges at these two locations. We also recommend that Cork and Shannon airports be given identical marketing budgets.

3. The level and quality of services offered at the airport by the airport authority and the reasonable interests of the users of these services.

The Regional Authority acknowledges that the Airports must incur and fund a level of investment commensurate with safety requirements and meeting passenger and Airline Operators needs. As earlier stated, we strongly submit that, as we are dealing with a monopoly, these costs and subsequent airport charges should be applied globally and uniformly across the three airports.

To do otherwise would be to open a door to other monopolies or oligopolies, to begin to differentiate in charges on a geographical basis. As an example the Oil Distribution Companies could decide to charge 50 p per litre of petrol in Dublin and 1.20 per litre in Donegal or Kerry. This would hardly been seen as being acceptable, yet we are confident that a suitably disposed Economist could make a very convincing argument in its favour.

To differentiate between the airports is no less unacceptable in the interest of users of Cork and indeed Shannon Airports.

The Commission in its Draft Determination acknowledges that Dublin airport is *“showing preliminary signs of some limits on its ability to add to capacity in a cost effective manner”* We would point out that Cork Airport is presently operating at capacity and will now effectively be penalised, due to delays in providing funding for its capital invest programme, which has been pursued by interests in this region for many years.

4. The cost competitiveness and operational efficiency of airport services at the airport with respect to international practice

The South West Regional Authority believes that it is a significant admission by the Commission where at page 17 of the Draft Determination, it notes that: *“different airport users make different demands on the infrastructure at the airport and may find that facilities of a lower standard adequately meet both their needs and the needs of their customers”*

This is without doubt evidence of the Commission being influenced by a forceful Airline lobby in one particular airport namely Dublin, and it suggests that the Commission is being unduly influenced by this lobby, in making its draft determination.

This is being done in the light of Dublin airport being adjudged to be operating at a level of efficiency, which could be improved by 15 % over the next five years and Shannon at a level of efficiency capable of a 25% improvement, over the same period.

Cork Airport operates efficiently and the Commission is giving a clear message that inefficiency will be rewarded while efficiency will be penalised by higher charges. We suggest respectfully if an Airline Operator needs a reduced cost base at any of the airports, then the cost efficiency of that airport should be improved, rather than introducing artificial levels of subsidy through taxes on efficient operations at Cork Airport.

5. The level of the Authority's income from aviation terminal services and other revenue earned by the Authority generally

The Commission suggests at page 15, that it is considering "*whether both capital and operating expenditures arising from new commercial investments at Dublin airport should be excluded from the regulatory till*".

An attempt is made to justify this approach on the basis of Dublin Airport showing preliminary signs of some limits on its ability to add to capacity in a cost effective manner.

The Commission appears to be entering what could be described as internal management decisions of Aer Rianta in relation to the operation of one specified airport - Dublin airport, and this results in creating an uneven playing pitch for the other airports- something, which should in normal circumstances be anathema to any Regulator.

Summary and Conclusion

The continuing development of **Cork Airport is a key driver in the economy of the South West region**. The regional economy, with a divergence of 20% between GNP and GDP, is highly dependent on the Foreign Multinational Sector and on Tourism.

The proposed charges in respect of passengers and freight at Cork Airport will result in the Airport being uncompetitive in relation to Dublin and Shannon Airports.

If Cork airport is un-competitively priced, our major economic sectors will tend to move business away from Cork toward Dublin and Shannon. **This will have a direct adverse impact on the economy of the South West.**

Tourism is a key industry in the south west of Ireland and a high percentage of the tourism market nationally is based on short breaks such as special incentives over weekends etc. if Cork Airport is not competitive in comparison to Dublin and Shannon then this short break business as well as mainstream tourism will be seriously curtailed. The South West Regional Authority **fully endorses the submission made by The Cork Chamber of Commerce and partners in this regard.**

The South West is also much more dependent of air access than is Dublin, which has a variety of short sea route services

The Commission is treating the airports as if they operated within open market operations, in reality **the Airport Authority is a State owned monopoly** and the Commission is introducing artificial considerations to influence the Monopoly in its operations. We perceive that the effect will be for the Monopoly to apply the maximum charges as permitted and continue to build on its hub at Dublin.

This will directly serve to frustrate the Government policy to cool down the Dublin economy and encourage investment to the other seven regions.

The costs at Cork Airport are going to be uncompetitive and this increase is being determined, despite Cork being operated at an efficient level, whereas, there are notable levels of inefficiency at Dublin and Shannon.

We call on the Commission to validate and introduce an element of transparency to the calculation of its cost findings, on the basis that the figures calculated, which, in spite of the complicated mechanics of CAPEX, turn out at an exact average price for Shannon, a bargain basement at Dublin, with Cork being severely penalised.

We call on the Commission to approach its task from the perspective of a level playing pitch and the conclusion arrived at by the South West Regional Authority is that the Commission has failed to act in accordance with its legislative mandate. **In this regard the Authority will consider its options in relation to challenging the Determination as being undertaken in a manner, which is ultra vires the enabling legislation.**

The South West Regional Authority therefore calls for a full reconsideration of the Draft Determination on Airport Charges.

South West Regional Authority

18th July 2001.