

Irish Tourist Industry Confederation

Submission to the Commission for Aviation Regulation In response to the Paper CP1/2007

The Irish Tourist Industry Confederation (ITIC) representing all sectors of the Tourist Industry, wishes to respond to the Commission paper C.P. 1/2007 in relation to Dublin Airport charges.

Adequate consultation is a necessary part of the Commission's function in arriving at determinations on Airport charges, or in this case, a review of an earlier determination. However ITIC is concerned that the present process is in danger of suffocating itself by over elaboration on the minutia of the complex determination process, and runs the danger of missing the bigger issue, which is about ensuring the provision of adequate Airport capacity. Accordingly ITIC's response will in the main address the broader issues involved. It is intended to focus on the issues which are critical to see early relief to the present unacceptable situation at the Airport.

1. Urgent Need for Increased Capacity at Dublin Airport

Dublin Airport is operating well beyond its design and carrying capacity, resulting in congestion, delays, safety concerns and a less than overall satisfactory user experience. Traffic forecasts, supported by the principal airline users and DAA research, indicate continued growth. Therefore, there is an urgent need to expand capacity.

The inadequacy of the current terminal facilities at Dublin Airport is well demonstrated by objective external indicators:

- Ireland and Dublin ranked poorly amongst industrialists as to the quality of Air Transport infrastructure (2005 IMD World Competitiveness yearbook);**
- the perception of the quality of public transport infrastructure, Ireland now ranks 27 out of 28 European countries (The National Competitiveness Council).**

The development of Terminal Two at Dublin Airport has Government approval with DAA mandated to proceed with the project. The new Terminal is part of essential national infrastructure if economic expansion is to be maintained. Failure to provide the infrastructure would have serious negative impacts on economic growth, particularly on the valuable visible and invisible export and FDI sectors, including tourism revenue.

2. 'Airport Users'

In seeking to arrive at a determination, the Commission appears to rely heavily on input from "Airport users", narrowly defined as airlines without adequate consideration of the 'end user', i.e. the paying passenger. While airlines justifiably should have a very significant input in the process leading to determinations, it could be argued that the weight apparently given by the Commission to some of the Airlines' arguments is excessive.

The burden of any increased charges determined by the Commission will be borne, not by the airlines, but by their passengers. While airlines in their submissions to the Commission have been vigorously arguing against increased airport charges, in some instances their stance is at odds with their own practice of introducing unregulated increases in passenger charges for services such as baggage handling, credit card use, etc. As a consequence their credibility in opposing a €1 to €2 increase sought in airport charges to pay for the capital expansion programme is suspect. Such a passenger charge increase is about one quarter of the cost of checking a bag or credit card charge imposed by some airlines. In these circumstances it is difficult to sustain the airlines' argument as to the negative impact of the sought after increase in airport charges on demand elasticity.

3. Determination of Charges by the Regulator

The Commission's endeavour to establish "a structure and a level of airport charges that would be acceptable to all parties" is, over ambitious, however well intended. One of the functions of the Regulator is to adjudicate on issues, including charge levels, which cannot readily be agreed by the parties involved.

Current and projected composition of traffic mix (long & short haul); passenger profile (business and leisure) and carriers (large Dublin base and others) define the demand patterns at Dublin Airport. Therefore, capacity needs to be developed to cater for the characteristics of the demand, for example the early morning peak of short-haul departures and long-haul arrivals.

ITIC is of the view that differential pricing either for peak time or for the use of different terminals is unnecessary, impractical and would not be effective in changing the underlying pattern of demand usage at the airport. It could however have an adverse impact on airline competition, which would be highly undesirable from a tourism perspective.

As to the absolute costs of the proposed developments, we are of the view that the Commission and the DAA, as the two parties who are best informed, are in the best position to reach some consensus. It is ITIC's understanding however that:

- i. Indicative costs have already been examined externally on behalf of the Department of Transport and found to be within industry norms for this type of project in a European capital city. It is also assumed that the Commission has by now had these estimates professionally and independently evaluated, so seeking further user comment may provide additional material but little enlightenment.**
- ii Final costs can only be established at time of tendering for the project. It is assumed that the DAA will have in place a robust process which will ensure a quality project representing good value for money.**

ITIC notes with regret the decision of the DAA to opt for a terminal building providing service standards equating to I.A.T.A. level C. We are of the view that facilities in line with I.A.T.A level B would be more in keeping with Ireland's dynamic new economy and growth forecasts, including the scale and quality of incoming tourism being targeted.

4. Urgent Need for a Determination

The fact that the Commission, in light of the changed circumstances, is reviewing the determination of September 2005 is welcome. The enlarged facility proposed by the DAA would appear to be the minimum which is required to cater for the growth which is evident at Dublin Airport. ITIC believes that the soon to be implemented Open Skies agreement will add further to this growth. ITIC is also of the view that the risk of building the next tranche of capacity at Dublin Airport too small, is greater than the risk of building it too large. Air travellers have for too long endured capacity additions at Dublin Airport which were too small by the time they were completed.

ITIC strongly urge the Commission to arrive at a determination to allow the development of Terminal Two to proceed on a financially sustainable basis. However, ITIC wish to record a number of concerns for the Commission's consideration:

- i. Based on the reports and supplementary papers issued by the Commission, it is difficult for ITIC not to be concerned that the**

thrust appears to favour a lowest cost basic interim solution. In an earlier submission ITIC pointed out that an inadequate development now, will condemn Dublin Airport to the almost permanent status of a building site.

- ii. It would appear from much of the documentation that there is an implicit assumption that the present service levels at Dublin Airport are acceptable, and that T2 and related developments are primarily related to catering to the expected growth in passenger numbers, at present Dublin Airport service levels. ITIC wishes to restate that the present peak time service levels are not only inadequate, they are a disgrace, and at times, in ITIC's view, potentially dangerous.
- iii. It is the Commission's function to ensure the facilitation of developments at Dublin Airport which meet the national need. In so doing it is improbable that a formula or a determination will emerge which will be satisfactory to all parties. However, the Commission must look beyond the narrow short term demands of individual "users", to the much greater national demand for a principal State Airport which can adequately meet the needs and aspirations of the travelling Irish people and the target of over 10 million overseas visitors by 2013.
- iv. Failure to produce a determination which allows an adequate project to proceed on schedule would in turn represent failure of the regulatory system which was set up to eliminate such obstacles. More seriously, it would do incalculable further damage to a national image and economy which is already suffering from a serious infrastructure deficit at Dublin Airport.

9th March 2007