

**Joint Response by  
Forfás/Enterprise Ireland/IDA Ireland  
to CAR's Consultation on the  
2014 Draft Determination for the Maximum  
Level of Charges at Dublin Airport**

**July 2014**



*Three quarters of Ireland's exports of goods and services in 2012 were by enterprise agency client companies in the internationally trading sectors. Agency-assisted companies operating in Ireland provide approximately 300,000 direct jobs and a similar number of indirect jobs; 40 per cent of national Gross Value Added; and €40 billion in direct expenditure (payroll, materials and services purchases).*

The enterprise agencies (Forfás, Enterprise Ireland and IDA Ireland) welcome the opportunity to input to the consultation by the Commission for Aviation Regulation (CAR) on the 2014 draft determination for the maximum level of charges at Dublin airport.

Ireland's economic growth depends on the ability of businesses to trade successfully in increasingly competitive global markets. The availability of a competitively priced world class infrastructure (transport, energy, telecoms, waste and water) and related services is essential to support enterprise development, competitiveness and job creation.

As an island nation, excellent air connectivity for passengers and freight is particularly important. Access to markets is one of the key factors for companies in deciding where to locate. Good international access (e.g. range of destinations, frequency, and cost) coupled with effective airport facilities and internal connectivity are key factors in mitigating the impact of Ireland's peripheral location in the eyes of potential investors, overseas customers, mobile employees and tourists.

From a competitiveness perspective, it is essential that the review of Dublin airport charges out to 2019 strikes the right balance between providing good quality services at the airport, ensuring future needs are met and keeping costs as low as possible for end users.

## **Why good air access is increasingly important**

The profile of Irish exports has changed significantly. Services exports are becoming increasingly important and in 2012 accounted for 49 per cent of total Irish exports, which means greater demand for air passenger services to a diverse range of destinations for meetings with clients and overseas based colleagues.

The type of business activity that IDA and Enterprise Ireland client companies are engaged in is also changing – for example with more European headquarter and marketing functions locating in Ireland, executives need easy access to other office locations within the company and also to overseas clients; Irish companies are also setting up overseas offices to grow their business and are dealing with internationally based suppliers, clients and other investors.

Enterprise and tourism policy are inextricably linked in terms of developing the range and quality of competitively priced international air access required to support national economic growth and job creation objectives.

Continued access to a choice of competitively priced, frequent and direct services to a range of short haul and long haul destinations is critically important to meet enterprise and tourism policy objectives. Key to ensuring Ireland's direct connectivity needs are:

- policy and regulatory certainty to promote efficient and timely infrastructure investment;
- adequate and efficient airport facilities and incentives to attract new air services;

- good internal access to Irish airports to expand their natural hinterlands to drive demand of sufficient scale to support a diverse range of competitively priced direct services; and
- developing Dublin airport as a hub to increase demand to support the development of greater long-haul direct connectivity particularly to the Far East.

From an enterprise perspective, Dublin airport plays a critical role in providing businesses across the country with good international access, both in terms of passengers and freight – in 2012 (most recent data available), it handled 80 per cent of all passengers into and out of Ireland and 87 per cent of air freight. As Dublin airport dominates Irish air connectivity, ensuring efficient access to it from the main urban centres is critical.

## Feedback on the draft determination

The enterprise agencies welcome the draft determination on the maximum level of charges to apply at Dublin airport from 2015-2019. Of particular importance from an enterprise perspective is the strong focus on driving for efficiencies at Dublin airport to minimise the charges that passengers have to pay. The extensive benchmarking exercises that have been undertaken by CAR to inform the proposed caps to 2019 are very welcome.

In our submission on CAR's issues paper in September 2013, we highlighted the changing air access needs of enterprise, particularly the increasing importance of direct long-haul services to existing and emerging markets. They are also important to deliver on our tourism policy objectives.

The Department of Transport, Tourism and Sport's (DTTAS) is also currently consulting on its draft aviation policy. The enterprise agencies strongly support the focus on facilitating economic activity and the commitment to ensure that the aviation sector continues to meet the needs of the economy now and in the future. Of particular relevance to this consultation is the proposal in the draft aviation policy requiring the capacity reviews by the State airports to take account of enterprise and tourism policy objectives. The most relevant policy statements are:

- The enterprise policy statement, Making it Happen, which highlights how critically important an extensive international air network is for an island location – not only for tourism, but for all enterprise and Ireland's future economic growth. The further expansion of international passenger and freight air links must remain a priority<sup>1</sup>;
- Similarly, the Government's Trade, Tourism and Investment Strategy placed a strong emphasis on air links for freight purposes, tourism, and for ease of contact between traders and investors and stated that the Government's plans for air transport are to facilitate the growth of competitive air links, in order to promote the development of Irish business and tourism, and to ensure the sustainable development of the national and regional airports<sup>2</sup>; and

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1 Department of Enterprise, Trade and Innovation/Forfás, Making It Happen – Growing Enterprise for Ireland, 2010.

2 Department of Enterprise, Trade and Innovation, Trading and Investing in a Smart Economy, 2010.

- The Government’s Review of the Trade, Tourism and Investment Strategy in 2014 reasserted the importance of international air links for our export-led growth and a specific commitment to ‘...encourage new entrants, more frequent flights and a greater range of long-haul flights to and from Ireland’<sup>3</sup>.

Reflecting enterprise and tourism policy objectives, the draft aviation paper highlights the need for Irish airports to have the infrastructure in place (e.g. runways of sufficient length) to accommodate the future needs of the economy, including direct services to existing and emerging markets. This is particularly important for Dublin airport, given the critical role it plays in providing businesses across the country with good international access.

The remainder of the paper will address the specific issues of relevance to enterprise in CAR’s draft determination.

## **Section 2: Approach to regulation**

We welcome the focus in section 2.8 of the draft determination on broadening the definition of users to include passengers and not just airlines. From an enterprise perspective, continued access to a choice of competitively priced, frequent and direct services to a range of short haul and long haul destinations is critically important.

To improve direct access to long-haul destinations in existing and emerging growth markets, Ireland needs to:

- Have the infrastructure in place to accommodate large aircraft - e.g. double decker facilities and adequate runway capacity; and
- Develop Dublin as a hub airport which would help increase demand beyond that which the local market could support to make operating such services out of Ireland commercially viable.

The draft aviation policy also includes developing new routes and services to new and emerging markets and the development of Dublin airport as a hub among its core objectives. While we acknowledge that the aviation policy is still in draft form, it is informed by extensive consultation by DTTAS on the future needs of economy and it is important that CAR’s assessment of what future passenger needs are likely to be are informed by it.

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<sup>3</sup> Department of Foreign Affairs and Trade, Review of Government Trade, Tourism and Investment Strategy, 2010-2015, 2014.

## **Section 4: Operating expenditure**

We support the strong focus on driving for efficiencies in operating expenditure at Dublin airport to minimise the charges that passengers have to pay.

According to the draft determination, CAR commissioned consultants (SDG) to undertake an efficiency assessment of operating costs at Dublin airport but SDG used different passenger forecasts and a different price base to those used by CAR. However, the draft determination does not provide an explanation for the differing assumptions by CAR and its consultants in their assessment of the operating expenditure at the DAA. Such an explanation would improve transparency and would therefore be welcome.

The extensive benchmarking exercises that have been undertaken to inform the proposed caps to 2019 are a very positive development. We note that operating expenditure per passenger at Dublin airport is relatively competitive when benchmarked against 69 European airports served by Aer Lingus and Ryanair. It is important that we continue to drive for efficiencies to ensure that Ireland's relative competitiveness is maintained.

## **Section 6: Capital costs**

The enterprise agencies support CAR's proposals on the treatment of capital expenditure already made by the DAA. Only increases in costs that were outside the control of the DAA (e.g. increased cost of borrowing because of the increased cost of borrowing by the State) during the previous determination period should be recoverable.

### *Capital investment to 2019*

As highlighted previously, Ireland needs to ensure that it has the airport infrastructure in place (e.g. runways of sufficient length, landing facilities) to accommodate the future needs of the economy, including direct long haul services to existing and emerging markets.

Developing Dublin airport as a hub airport is also important to ensure that Ireland has direct access to long-haul destinations in existing and emerging growth market. As highlighted by the Airports Council International (ACI), transfer traffic allows an airport to grow its direct connectivity far beyond what its local market could support. This is particularly important in an Irish context given our relatively small population. Hub connectivity also stimulates cost efficiencies and economic growth<sup>4</sup>.

As highlighted in our submission on DTTAS's Issues Paper last year, if Irish airports cannot accommodate the new aircraft of the airlines serving the Irish market, the availability of direct access into and out of Ireland could be adversely affected. Dublin competes with other international airports for air services; therefore it is critically important that Dublin is not the only capital city in Europe without the infrastructure to accommodate large aircraft like the A380, which is likely to be the aircraft of choice for many airlines on long haul routes. Any new

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4 Airports Council International (ACI), Airport Industry Connectivity Report 2004-2014.

investment at the airport is likely to lead to an increase in airport charges. Therefore the decision on the timing of the rollout of the required infrastructure will need to balance cost competitiveness considerations with ensuring the timely availability of adequate facilities at the airport to accommodate future demand.

Given the lead time involved in developing major air infrastructures, it is essential that investment in key development works in Dublin airport can proceed in a timely way to provide certainty to international air services providers and position Ireland for future growth.

CAR commissioned EY to undertake a review of the cost of investment projects put forward by the DAA for the period to 2019. But according to the draft determination, this review did not to assess whether the proposed investments are required to meet the current and future needs of users.

While we acknowledge that the aviation policy is still in draft form, it is critically important that CAR's assessment of the capital expenditure to allow over the period 2015-2019 is informed by it. Of particular relevance to this consultation is the proposed policy priority in the draft aviation policy to mandate the State airports, including Dublin airport, *"to carry out reviews of capacity constraints and infrastructure needs at five yearly intervals, commencing in 2015"*. These capacity reviews will need to take into account enterprise and tourism policy objectives and ensure that the State airports are well placed to accommodate global developments in aircraft size and landing requirements and ensure that future passenger and freight growth and needs are met.

It is not ideal that the planned review of capacity at Dublin airport will take place after CAR sets the maximum level of charges and the allowed capital investment levels for the period 2015 to 2019. It is therefore important that, as well as the views of airlines and ground handlers that have informed the proposals in the draft determination, CAR takes account of the future needs identified in the draft aviation policy when making its final determination. It also needs to give due consideration to the important role Dublin airport plays in supporting wider national enterprise and tourism policy objectives.

The enterprise agencies recommend that CAR's final determination, in particular the capital projects allowed between 2015 and 2019, should ensure that Ireland's future passenger and freight international air access needs are met. Of critical importance to deliver national enterprise and tourism policy objectives is the timely availability of the air infrastructure required to support larger aircraft and improve Ireland's direct access to long haul destinations, in existing and emerging markets. Developing Dublin airport as a hub airport will also be important to achieve this.

Given the time lag in delivering large infrastructure projects, the enterprise agencies recommend that CAR reconsiders increasing the passenger threshold to develop the new runway at Dublin airport. It is critical from an enterprise development perspective and to support tourism growth targets that we do not create a situation that leads to congestion at

Dublin airport and/ or damages growth potential if peak capacity is constrained. The setting of the new charges should reflect the need for such advanced infrastructure development.

We acknowledge that the development of a new runway is likely to require a new control tower for air traffic control purposes. Given the complexities of adding a new control tower, it is important that the planning is done at the appropriate juncture to ensure its timely delivery and enable Dublin airport to meet the long term passengers and freight needs. We recognise that this will require additional capital expenditure which would have to be passed on to end users.

It is also important for Dublin airport's attractiveness for new and existing services and passengers that the airport complies with international security requirements in a timely fashion. Capital projects to comply with international security obligations should therefore be allowed.

## **Section 8: Quality of service**

The enterprise agencies support CAR's proposal to retain financial incentives for DAA to meet certain quality of service standards. As highlighted in Chart 8.1, there has been a marked improvement in performance across all of the quality indicators in recent years and the DAA has performed well above the target levels set in the 2009 determination. The passenger experience can have a significant impact on the business traveller's and the tourist's impression of Ireland and its attractiveness as a business/holiday location. It is also important for Dublin airport's attractiveness as a hub.

We note that CAR is using the average score that the DAA achieved between 2010 and 2013 as the target for the period 2015-2019. This means in some cases, the DAA's target will be lower than recent performance. This seems at odds with CAR's stated aim of setting targets to protect users from the possibility that the improvements in service will be lost.

The difference between recent performance and the target level out to 2019 is most pronounced on the Wi-Fi indicator (Chart 8.1 in the draft determination). As previously highlighted by the enterprise agencies, the availability of good and free Wi-Fi at the airports is important for business travellers who need to work while waiting for flights. It is also important from a tourism perspective in terms of first impressions of Ireland. The target level is also lower than recent performance on the cleanliness of airport terminal indicator.

The enterprise agencies recommend that the target levels for 2015-2019 should not be lower than the recent performance outturn to ensure that current service levels at Dublin airport are maintained and customer interests are protected. We acknowledge the trade-off between quality of service and costs but it is important that the quality of service at Dublin airport is on a par with the best of its international peers. The enterprise agencies recommend that CAR benchmarks Dublin airport's quality of service performance to achieve that.

## **Section 9: Other issues**

The enterprise agencies support CAR's proposal not to introduce sub-caps requiring peak pricing. Instead it is left to the discretion of the DAA to use differentiated prices to send price signals to the airlines when deciding whether to operate at the busiest hour.

## **Section 10: Compliance with statutory requirements**

We note the statutory objectives and factors that CAR has to comply with when preparing the draft determination.

On the first objective - *to facilitate the efficient and economic development and operation of Dublin airport which meet the requirements of current and prospective users of Dublin airport* – as previously mention in section 2 of this paper, it is very important that CAR uses the broad definition of users (including passengers) and not limit it to the airlines. In terms of meeting future passenger needs, as stated previously, CAR needs to ensure that Dublin airport is well placed to accommodate global developments in the aviation sector (e.g. aircraft size; changing security requirements) and ensure that passengers of the airport have access to competitively priced quality services now and in the future.