

**Forfás' Submission to the Commission for Aviation Regulation's
Public Consultation on Dublin Airport Charges following the Capital Investment
Programme 2006 (CP1/2007)**

March 2007

Forfás welcomes the opportunity to provide comments on the public consultation by the Commission for Aviation Regulation (CAR) on Dublin Airport charges.

National and international air access is critically important in an increasingly globalised economy. As a small open economy at the edge of Europe, Dublin and Ireland must have the connectivity that allows executives, investors, researchers and tourists to connect as easily with Ireland as with other global cities with which we compete for trade and investment. An efficient airport with adequate capacity plays an essential role in achieving this.

Access to markets is regarded as the single most important factor for companies in deciding where to locate according to a 2006 study by global real estate agents, Cushman & Wakefield Healey & Baker.¹ Ireland's current performance is poor. While Dublin was positioned 11th among the best European cities to locate a business in, it only ranked 22nd on the important access to markets indicator and on international transport links specifically, its ranking dropped from 19th in 2005 to 25th in 2006. Furthermore, the IMD World Competitiveness indicator (see Appendix), which measures industrialists' perceptions of the quality of countries' air transportation infrastructure, ranked Ireland 18th in the OECD.

In light of Ireland's geographic location and our dependence on export markets, the relatively poor quality of Ireland's and Dublin's air transport infrastructure is of major concern from an enterprise development and national competitiveness perspective.

Given the complex nature of the issues under review, Forfás will not provide detailed comments on some of the more technical issues outlined in the consultation paper. However, we would like to use this opportunity to set out some key principles from an enterprise development perspective for consideration by the CAR in reaching its decision:

1. The current situation of congestion and over-crowding at Dublin Airport is damaging to our international competitiveness and reputation. It cannot be allowed to continue. The proposals to provide additional capacity to meet the longer-term needs of the economy are therefore a welcome development. **The CAR's decision on charges at Dublin airport must incentivise the investment necessary to provide Ireland with an efficient and well functioning airport that is competitive, both in terms of its service levels (e.g. appearance, queuing times, passenger seating etc.) and its charges.** It is also critical that decisions made support the development of the infrastructure in a timely fashion, and that adequate capacity is planned for to ensure that the airport is not characterised by constant

¹ Cushman & Wakefield Healey & Baker, *European Cities Monitor 2006*, September 2006

development in the long term. Subject to the achievement of these objectives, customers should be protected from excessive prices and returns on aeronautical assets.

2. In general, Forfás supports the building of critical infrastructure ahead of demand. Given the time required to build major infrastructure projects, it is important that adequate planning is made for the future. While investment ahead of demand entails higher costs and risks for the infrastructure provider, the additional costs should be a small proportion of total travel costs. The publication of supplementary documentation, such as the DAA's *Dublin Airport and Aircraft Movement Demand Forecast Report*, as part of the consultation is useful in understanding the assumptions underlying the demand projections. However, Forfás is concerned by the lack of consensus between the CAR and the DAA regarding the future demand profile at Dublin Airport. We accept that all projections carry a high degree of uncertainty.

Of particular concern is the fact that the justification of peak time demand for T2 remains unclear, thus leading to the potential to build capacity over and above the airport's long term needs. Where this is in response to a specific customer need, this should be the outcome of a deliberate consultation process. The fact that T2 would be only 30 percent utilised in 2016 reinforces the need for clarity on likely peak time demand. The magnitude of the differences in costs as between the May 2005 CIP and the 2006 CIP should be fully justified by the DAA to the CAR. The (estimated) additional €259 million investment proposed by the DAA over benchmark comparators also requires further examination.

3. Other factors that need to be considered in a long term analysis of future demand at Dublin Airport include:
 - Regulatory developments such as the proposal to include aviation in the emissions trading scheme and the possible introduction of carbon taxes to reflect the environmental costs of travel. This may particularly impact on short-haul flights; and
 - Implication of potential shocks including major accidents, terrorism and pandemics.
4. Notwithstanding this, as indicated in the consultation document, we believe that it is important that the regulator or others do not second-guess the DAA decisions. The DAA, in consultation with its customers, is best placed to assess the future needs of the airport. In this context, however, it is important that the DAA rather than final customers (i.e. air travellers) bear most of the risk of the new terminal. Existing customers should not be expected to pay any emerging deficits if these projections prove too optimistic. This will incentivise the infrastructure provider to minimise investment costs and ensure the timely delivery of the additional facilities. The DAA should also be incentivised through the price cap and perhaps the use of output triggers to aggressively seek to achieve the ambitious forecasts set out, through attracting new carriers to the market and widening the service base of existing operators. Pricing should also ensure that initial users are not paying higher prices while utilisation is low.
5. In terms of user charges, a balance needs to be struck between incentivising investment in much needed additional capacity at the airport and maintaining the competitiveness of Dublin airport charges. Forfás believes that:

- Users should be charged for the cost of building a modern, efficient and functional airport, the appearance of which is consistent with Ireland's status as a developed country. There is a strong suggestion in the consultation paper that some of the planned costs of T2 are due to gold-plating. However, it is not possible from the information provided to assess the validity of this. Forfás is firmly of the view that gold-plating should not be recovered from user charges. The levels of service should be in line with good international practice in other developed capital cities, and building specifications should be in line with these. In particular, the right balance needs to be achieved between commercial/retail space and recreational space for passengers. The design of T2 also needs to take full account of other planned infrastructure such as the metro from the city centre to ensure efficient and easy access for passengers;
- If the DAA demand projections are being used to determine the capacity of the new terminal and they have been developed in a transparent way in consultation with its customer base, it seems sensible that these estimates are also used by the CAR in determining the level of airport charges for T2. The agreement of a price path between the DAA and the CAR would help to provide a degree of regulatory certainty for customers and the DAA. Commercial factors will determine the success of the DAA's investment. It also incentivises the DAA to take steps to maximise airport usage. It is important that T2 is designed to future proof the infrastructure to accommodate the new super-jet, the A380, as well as providing facilities so that Dublin Airport has the capability to act as a hub for existing and potential new air carriers;
- Forfás concurs with the CAR that only users benefiting from the service pay for it and only when that service is available. Costs related to the new facilities should only be incorporated into user charges when the facilities are operational - based on clear services level agreements - and over the lifetime of the asset. This sends strong signals on the scale of the investment needed and places the risks on the parties best able to manage the speedy delivery of the facilities. It removes the possibility of the DAA being compensated for investments not undertaken or delayed. Should the facilities be opened on a modular basis, milestone trigger points could be used.
- Peak demand plays a key role in determining airport capacity and required investment. Therefore, peak users should bear some of the additional costs though the degree of loading should not be excessive. These charges should be benchmarked against costs in other countries that we compete with for trade, investment, and tourism. The building of T2 will also ease the pressures on the use of existing facilities. Therefore, Forfás is of the view that some of the costs of T2 should be shared across both facilities as T2 will benefit users of both terminals (even if T1 facilities are not physically improved). We are not in a position to determine a formula for how these costs should be allocated. However, we believe that the case for differential pricing is strong. Given the nature of investment in existing facilities, the charges for T1 are quite competitive. The charges (and therefore investment levels) for T2 must be set at a rate that is attractive for airlines and their customers to move to the new enhanced facilities. It is critical that

administrative pricing is not used to remove the potential for competition between the facilities; and

- Operational costs should be lower in T2 than T1 given that the new terminal can benefit from the greater efficiencies arising from the latest technological developments in airport design and operation. This should be reflected in the level of user charges.

In summary, from an enterprise development perspective, Ireland and Dublin require an efficiently functioning and competitively priced airport that benchmarks well with competitor cities in terms of international connectivity airport charges, quality of service and access to and from the airport. The range of destinations available, the frequency of flights, and the ability to return on the same day for short haul flights is also important. It is critically important for Ireland's future growth and competitiveness that the CAR's decision in respect of the appropriate level and structure of price caps for charges at Dublin Airport incentivises the investment necessary in an economically efficient manner to meet these needs.

Forfás

March 2007

APPENDIX - QUALITY OF AIR TRANSPORT

