SUBMISSION

TO

COMMISSION FOR

AVIATION REGULATION

Proposed Maximum Levels of Airport Charges

(Commission Paper CP 6/2001

of 26 June 2001)

From:

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IRISH exporters association

INTRODUCTION

- This report has been prepared by the Irish Exporters Association (IEA) following due consultation with its members and the service providers (freight forwarders/airlines/cargo handlers) who interface between the exporters and the airport operator (Aer Rianta).

- The primary focus of the submission relates to the impact of the Aviation Commissioner's proposed maximum airport charges on the movement of commercial goods (cargo). As exporters are also the prime importers into Ireland, the cost implications of the proposed charges are considered for arrivals and departures of goods. The IEA members account for 70% of exported goods from Ireland and 95% of airport throughput volume.

PRIMARY OBJECTIVES

- The aim of the submission is two fold;

  - To assist the Aviation Commission in arriving at an equitable and balanced judgement as to the appropriate maximum level of airport charges it should allow for Dublin, Shannon and Cork airports.

  - And to ensure exporters out of Ireland are not disadvantaged or hindered in the development of their business due to the introduction of a regulated airport access charging regime which is excessive and/or inappropriate for movement of commercial goods.

GENERAL SUBMISSION

The Aviation Commissioners proposals have been evaluated under the following headings:

- Access
- Prior charge request
- Benchmarking
- Capital expenditure programme
- Statutory objective
- Summary
- Appendix

ACCESS

- Globalisation is a key feature of the modern competitive environment. This is true not only for companies, but also for regions, economies, countries and even continents, since all activities are now exposed to global competition.

- Ireland is an island, off an island, off a continent and as such is very dependent on access to competitive freight services. This dependency has become more acute in the past decade as congestion in the infrastructure has reduced efficiency of the whole supply chain out of Ireland.

- Ireland has successfully taken a share of the global outsourcing market, through world-class logistics. Central to this success has been efficient air freight services at competitive cost.

- The facilities supporting airfreight services at Dublin airport in particular have not been put in place in any great extent by Aer Rianta, but to a significant extent by the airlines and related service providers.

- This system of allowing independent investment in cargo facilities has worked well and allows of flexible supply chain management of a 'lean' nature. Aer Rianta has played its part in this partnership strategy and has kept its cargo access charges competitive and reflective of its development and handling costs in this area.

- The Irish Exporters Association strongly recommend to the Commission that this approach be continued and that respected suppliers of logistic services are not brought into conflict with Aer Rianta on the basis of a new regime of unacceptable cargo charges.

PRIOR CHARGES REQUEST

- The Commission advised the IEA by memo on the 10th July 2001 that, "The Draft Determination (Section 4 of CP6/2001) is expressed as the maximum permitted revenue per workload unit. Therefore, the determination is expressed in terms of total revenue derived from all airport charges for the year per workload unit" (end of quote).

- It is therefore the IEA's understanding that in general terms the impact or effect of the proposed determination by the Commission of maximum permitted revenue per work load unit as it applies to airfreight, is at least 5 times higher than that requested by Aer Rianta in December 2000. During the year 2000, Aer Rianta made application to the Minister for Public Enterprise to introduce an airport freight levy or charge of:

  - £10 per tonne on both exports and imports.
  - Effective date requested for implementation, 1st January 2001.

  This request was opposed by the IEA and submissions made to the Minister. In December 2000 the Minister refused the Aer Rianta request and advised that the Aviation Commission would investigate the issue when appointed.

  The IEA recommends to the Commission that any element of airport charges to be determined under the separate review of implementation of the EC Directive 96/67/EC on access to groundhandling be considered as a fractional charge already included in the maximum airfreight (cargo) permitted revenue per workload unit, as determined in this Commission paper CP6/2001.

The Irish Exporters Association believes that the Aviation Commissions proposed maximum cargo charge of:

- £49.60 per tonne at Dublin airport
- £60.50 per tonne at Shannon airport
- £71.50 per tonne at Cork

is excessive, does not reflect the airport operators requirement or cost structure for cargo and should be lower than the £10 per tonne originally applied for by Aer Rianta.

BENCHMARKING

- The Commissions benchmarking has been done against best in class airports of similar size based on passenger numbers, rather than on cargo throughput. Hence, to base a maximum allowable charge for cargo on this benchmarking exercised is obviously not valid.

- The work load unit relationship utilised by the Commission is also suspect as it is based on the generalised International Civil Aviation Organisations (ICAO) broad measure of :

  - 1,000 passengers equals
  - 100 tonnes of cargo.

- An 'activity analysis', benchmarking the use of airport facilities by the cargo handling activity is recommended as the more accurate way for measuring the cost/revenue allocation. The Commission may need to utilise the services of an independent consultancy, knowledgeable in this field to carry out the cargo handling activity analysis. The consultancy report should establish the utilisation of Aer Rianta provided cargo facilities and its cost.

CAPITAL EXPENDITURE PROGRAMME

- The capital expenditure (Capex) programme proposed by Aer Rianta is very ambitious and they are to be complimented on many aspects of it. However, the costings and service offerings under the Capex should be evaluated against the provision of similar facilities and services by private third parties.

- Also as the Commission is obliged to "aim to facilitate the development and operation of cost effective airports which meet the requirements of users", there is clearly a need to test the economic welfare of the Capex with the ability of "users" to provide their own facilities at lower cost. "Users" are appropriately defined by the Commission as passengers, cargo shippers, airlines and ground handlers.

- Notwithstanding the many laudable aspects of the Capex programme, serious questions must be asked of the proposal to create a private rail system within the airport complex for £105 million. The IEA recommends to the Commission to exclude this from the Capex. This expenditure more currently rests in the IEA's opinion with Iarnroid Eireann.

- However, if we take the Capex at its face value, just under half a billion pounds Irish is proposed for expenditure at Dublin airport in the time frame 2001 to 2010 (Ref Appendix 1). Only £9 million or 1.8% of this is proposed for cargo infrastructure.

- Comparing this to the potential revenue sources allowed under the maximum revenue per Work Load Unit (WLU) (Ref: Appendix 1), shows cargo generating 9% of total revenue or a factor of 5 times greater than the Capex return for passengers.

- At Shannon, the Capex proposed is £84.4 million in the ten year plan. However, only £150,000 has been allocated to cargo facilities. A mere 0.17% of the total Capex.

  The Revenue potential if the proposed maximum charge per WLU was implemented would see 18% of the total coming from cargo. A factor of 100 times greater return on cargo Capex than on passenger Capex.

- Similarly, Cork shows a Capex of £100.4 million with zero allocation to cargo infrastructure. And in terms of potential revenue per WLU cargo would generate 6% of the total. Again indicating an erroneous relationship in the Regulators WLU for passenger and cargo.

STATURY OBJECTIVE

- The Aviation Commission introduces this Draft Determination document by stating;
  "one purpose of this paper is to allow interested parties and the public to ascertain in general terms the impact or effect of the proposed determination".

- However, the lack of transparency and logical flow of information in the Commission document as between "maximum permitted revenue", "yields", and benchmarked "airport costs" does not in the opinion of the Irish Exporters Association meet this fundamental requirement.

SUMMARY

- On the basis of the current support facilities for cargo handling and the proposed future capital expenditure on new cargo handling facilities by Aer Rianta, the proposed maximum airport charge for cargo has been shown to be overstated by a minimum factor of 5 times.

- On the basis of benchmarking airports on a passenger number basis and then extrapolating to cargo, there are serious doubts as to the validity of the WLU system devised by the Regulator to determine airport access charges for cargo.

- On the basis of capital expenditure in the proposed ten year development programme for airports, there is a strong case for reducing the proposed maximum airport charges by a factor of 5 to reflect capital expenditure in cargo facilities.

- On the basis of Aer Rianta prior request for a cargo access charge, a maximum of £10 per tonne would be considered the highest level that the Regulator should allow. This would also be reflective of the other analysis points above.

- In addition, there is a general belief by the Irish Exporters Association that the Commission Paper CP6/2001 does not meet the primary statutory objective of enabling an understanding of the impact of the proposed maximum revenue determination by the "users" of the airport facilities.

APPENDIX 1

CAPITAL EXPENDITURE – DUBLIN

Proposed expenditure by Aer Rianta in the ten year period 2001 to 2010.

Capital Expenditure (Capex)

-	Total Capex	£495 million	2001/2010
-	Cargo capex	£9 million	2001/2010
	% cargo to total expenditure		1.8%

Potential Revenue which may be generated under proposed maximum airport charges per WLU.

Year 2000:	Passengers	13.8 million	@	£4.96	=	£68.4 million
Year 2000:	Cargo	150,023 tonnes	@	£49.6	=	£7.4 million

Cargo generating 9% of total revenue.

APPENDIX 2

CAPITAL EXPENDITURE – SHANNON

Proposed expenditure by Aer Rianta in the ten year period 2001 to 2010.

-	Total capex	£84.4 million
-	Cargo capex	£0.15 million
	Cargo as % of total capex	£0.17%

Potential revenue from WLU proposed charges:

Year 2000	Passengers:	2.4 million @ £6.05	=	£14.5 million
Year 2000	Cargo:	53,398 tonnes @ £60.50	=	£3.2 million

Cargo generating 18% of total potential revenue.

APPENDIX 3

CAPITAL EXPENDITURE – CORK

Proposed expenditure by Aer Rianta in the ten year period 2001/2010 at Cork airport.

- Total Capex : £100.4 million
- Cargo Capex : Zero

Potential Revenue from WLU proposed charges:

- Passenger No's year 2000 1.7 million @ £7.15 = £12.2 million
- Cargo 10,894 tonnes in year 2000 @ £71.5 per tonne = £0.8 million
- Cargo generating 6% of total revenue potential.