A: 1 Northwood Avenue, Santry, Dublin 9
T: +353 1 844 7700
F: +353 1 844 7701
E: info@stobartair.com
www.stobartair.com

Stobart Air response to

Commission for Aviation Regulation's

Draft Determination in respect of airport charges at Dublin Airport

Commission paper 1/2014

31 July 2014

Introduction

Stobart Air is pleased to have the opportunity to respond to the Commission for Aviation Regulation's (CAR) Draft Determination on Airport Charges at Dublin Airport, dated 29 May 2014 – Commission Paper 1/2014.

In this short note, we do not intend to address each aspect of the determination; however, below we address a number of general issues in response to CAR's determination and also briefly comment on a number of specific issues of relevance to Stobart Air's operations at Dublin Airport.

Airport Charges and proposed price cap

Stobart Air recognises that airport charges, while they place an additional burden on airlines and ultimately passengers, are necessary to ensure that our airports can provide the best facilities and customer services to the travelling public. Such charges are important in ensuring that airports such as Dublin Airport can compete with their peers and match the services and facilities available internationally.

However, a balance must always be struck between facilitating strategic investment in maintenance, facilities upgrade and critical infrastructure and maintaining cost competitiveness for passengers and airlines.

In CAR's Issues Paper dated 31 July 2013, it noted that airport charges have risen significantly since 2005, from €6 to where they currently stand at €10.65. This high level of charge has placed a significant burden on airlines against the background of severe economic downturn for most of the period since the last determination took effect in 2009.

With the latter to the fore and conscious of the relatively high airport charges which already pertain at Dublin Airport, Stobart Air supports the CAR's determination that the annual price caps would be subject to a '*significant decline from the current levels*' over the five year period of this determination (2015 to end 2019). We note that CAR has recommended that the price cap would reduce by 4.8% each year from 2016 to 2019 inclusive.

We concur with CAR's rationale for the proposed price cap reduction based on an analysis of DAA outturns on costs and revenues over the forthcoming five year period. As part of this analysis, CAR also notes that the anticipated higher passenger numbers expected in 2019, relative to 2013, is also a key factor in its determination. The latter will lead to increased charges by passenger volume and also increased commercial revenues. Indeed, CAR has projected that by 2019, commercial revenues at Dublin Airport will be similar to those realised pre-economic downturn in 2007.

Based on CAR passenger numbers, peaking at 24 million by 2019, it is projected that there will also be further scope for DAA to realise economies of scale and to achieve further operating efficiencies.

Capital Development

Investment in infrastructure is vital to the efficiency and growth of any airport. However, it is essential that such development is suitable and appropriate to the needs of each airport. A correct balancing of the burden of financing capital development also must be struck between the developing body (DAA) and the end-users (airlines and passengers). Capital development at Dublin Airport has a wider benefit which accrues to Ireland's national economic development, which must also be considered, in isolation from airlines and passengers' immediate benefit.

Access to finance and capacity to fund capital development is currently restricted across all aspects of the public and private sectors in Ireland. However such development is critical to Ireland's overall economic recovery in the years ahead.

In light of these restrictions, greater consideration should be given to alternative methods of financing capital development at Dublin Airport. This might include increased outsourcing and privatisation or capital development funding models including Design, Build, Finance and Operate or Public Private Partnership (PPP models etc.)

Notwithstanding, the need for such infrastructural enhancement and development, it is critical that airlines are *not* required to pay for these projects upfront. Airlines and passengers should not be required to pay charges to fund such projects until they are fully operational and available for use by airlines and their passengers.

With regard to Contingent or Triggers Project, only required projects which are implemented during the current determination period should be recouped in the current period.

More specifically, the DAA has proposed an ambitious programme of capital investment. This programme has been grouped by the DAA into three distinct elements – capital maintenance projects, business development projects and contingent projects, particularly around security upgrade at the airport.

Stobart Air notes that CAR has examined each element of the DAA's capital investment programme and allowed for a capital expenditure of €308 million over the next five years which we believe is adequate. The capital allowance of €308 million to DAA will allow DAA to proceed with 38 of the 54 projects included in its investment programme. Of the remaining 16 projects, which CAR does not support proceeding with, we note that this is due to the fact that these projects have been deemed to be '*not in the interests of current and prospective users'* [page 49 CAR Determination].

Of significance and particularly persuasive for Stobart Air in broadly supporting CAR's determination on the DAA's Capital Investment Programme is its finding that if the full DAA capital programme was to proceed it would have '*a significant impact on the price cap, adding almost €3 per passenger by 2019'* [page 67 CAR Determination]. This would be completely unsustainable from our perspective, not least because of our view that airport charges must be reduced from their current level to facilitate airline and passenger growth at Dublin Airport.

However, in respect of a small number of specific capital projects disallowed by the CAR's Draft Determination, we wish to make the following comments

- **Apron 300R**

CAR in its draft determination disallowed funding for this project, however being a regional turboprop operator who is regularly discriminated against by being allocated remote parking at Dublin Airport, we support the need for non-contact remote stands which are convenient to the T2 terminal and the hub of our operation as franchise partners.

We therefore do not support this position and strongly believe that failure to deliver this apron will act as a barrier to growth for regional airlines in particular. It will also exacerbate congestion currently being experienced by airlines operating out of Terminal 2, particularly at peak times.

As noted below, in greater detail, a 'one size fits all' policy in terms of capital development is not appropriate for Dublin Airport. Rather, capital development must be tailored to meet the differing requirements of the airlines which utilise the airport. In the case of regional airlines such as Stobart Air, to sustain their presence and growth at the airport, their specific infrastructural requirements must also be met, in addition to ensuring their continued access to the more general, cross-over services which are relevant to all airlines, irrespective of their operating model.

Apron 300R can deliver a number of significant benefits for regional airlines operating at Dublin Airport. These include:

- Providing 5 NBE stands for regional-type aircraft will result in reduced bussing times for our passengers which ensure we continue to deliver an efficient operation to meet the demands of our business.
- Reducing bussing times to ensure we meet the minimum connecting times of our growing transfer passenger numbers;
- Reduced towing distances on and off contact stands;
- Improving airline punctuality;
- Reducing congestion on the apron and airline fuel burn.

- **Line up points**

The DAA have proposed the development of additional line-up points, which we broadly support. However, airlines should not be required to pay for these facilities in advance of them being fully available and operational.

- **Redevelopment of Terminal 1**

The DAA has included a number of proposals on the redevelopment of Terminal 1 at the airport. We recognise that Terminal 1 is now outdated relative to Terminal 2 and that Terminal 2 is the preferred location for the majority of operators due to its enhanced facilities. However, it must be noted that Terminal 2 was financed by airlines; and likewise its ongoing debt repayments continue to be funded by airport charges paid by airlines, including Stobart Air, who currently use this newer terminal.

In the interests of ensuring a fair allocation of the burden of financing capital development at Dublin Airport, we believe that airlines which operate from Terminal 1 should ultimately be responsible for financing the re-development of this terminal.

With Terminal 2 now operating at capacity and experiencing congestion problems, the DAA must also ensure that all entrant airlines seeking to establish new operations from Dublin Airport should operate from Terminal 1 and equally bear the burden of funding its re-development. Not least because ultimately they will benefit most from Terminal 1's re-development.

DAA charges and regional airlines

Dublin Airport has enjoyed positive passenger growth in 2011, 2012 and 2013 respectively. This growth has come from a number of different sources, including long-haul traffic, expansion in transatlantic connectivity and growth of Middle Eastern routes. Within this mix, regional airlines, such as Aer Lingus Regional operated by Stobart Air, have also contributed to a return to positive passenger growth at Dublin Airport.

From Stobart Air's perspective, the following recent statistics are of note:

- Stobart Air carried 130,098 passengers in June 2014, a 37% increase on the same period in 2013;
- Passenger traffic from all Irish bases grew in June, 2014, with the largest increase at Dublin Airport where 45% more people were carried to and from the airport. While Cork experienced an increase of 18%, Shannon 29% and Kerry Airport 4%.
- Stobart Air has recorded 12 months of consecutive growth to June 2014, with 30% grow in each of the months of April, May and June, 2014.

However, in terms of the levying of airport charges a 'one-size-fit-all' approach is adopted by CAR/DAA. This means that in the case of Dublin Airport no distinction in the treatment or level of airport charge which applies between large scale and/or international carriers and smaller regional airlines.

This lack of distinction fails to acknowledge that the two dominant carriers based at Dublin Airport function not only on a very different scale from smaller regional airlines, but also operate a very different business model.

Regional airlines make a unique contribution to Ireland's aviation sector and wider economic development. We strongly believe that the DAA's airport charges should fairly and proportionately take account of these differences through an airport charging system which accommodates variances between regional and larger carriers.

Such a tiered or weighted charging system could manifest itself in a number of different ways e.g. if agreed passenger growth targets are achieved.

We would ask CAR to acknowledge/recognise that the DAA current model of applying airport charges uniformly across all carriers, irrespective of size or capacity, does not fairly reflect the genuine differences which exist between carrier types and to develop a system of airport charges which more fairly reflect such differences.

Conclusion

Stobart Air's position in respect of CAR Determination of 29 May 2014, can be summarised as follows:

1. We support CAR's recommendation that the existing airport charge be significantly reduced up to 2019. We believe that this proposal will prove highly effective in increasing both passenger growth and commercial revenues at Dublin Airport. Increased passenger numbers, aligned with the greater economies of scale, which this increase will facilitate, will ensure that existing levels of customers' services at Dublin Airport can be maintained and improved upon over the period;

2. We support the need for ongoing maintenance and development of critical infrastructure at Dublin Airport. However, such development must prove itself to be robust and deliver a tangible return for airlines and passengers utilising the airport. It is also critical to achieve a proportionate balance between the burden which must be borne by airlines and passengers and the DAA itself in developing such infrastructure. We believe that the CAR's Draft Determination in allowing €308 million for such development sanctioning 38 of the DAA 52 capital investment projects (73% overall) has struck such a balance and is appropriate;

3. However, the one caveat to the principle outlined above, is our support for the development of Apron 300R. Its development will ensure the continued growth of regional airlines at the airport and provided critical infrastructure tailored to their specific needs;

4. In terms of the funding of capital development at the airport, it must be a fundamental principle that all charges to develop such projects should not be levied on airlines/passengers until such facilities are fully operational and available for use; and

5. Finally, we believe that the current system of levying airport charges uniformly across all carriers, irrespective of their size, capacity or business model unfairly disadvantages smaller, regional carriers relative to larger carriers. We recommend the development of a

new method of applying airport charges at Dublin Airport which more fairly takes account of such differences.

ENDS