



Submission to

Irish Aviation Regulation Commission

On

Behalf of

SIGNAL

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1.0 Introduction

This document outlines the response of SIGNAL to the draft determination of the regulator appointed under the Irish Aviation Regulation act 2000. The regulator published the draft determination in June 2001 and invited interested parties to respond by way of oral presentation or written submissions. Signal have chosen to prepare and submit a written submission.

SIGNAL a lobby group, which represents the interests of workers drawn from the various businesses directly and indirectly, associated with the Airport and is presenting this submission in the context of the legal framework that currently exists.

2.0 Legal background

The Aviation Regulation Act 2000 outlines a number of issues, which are relevant to the determination of the Airport charges, which should apply for the next number of years. The Commission for Aviation regulation has prepared a draft determination and within that draft determination the commission has developed responses to the 10 statutory factors listed in section 33 of the act and has outlined its approach under each of these headings to deliver the overall objective as its sees it.

This submission also examines a number of the statutory factors and proposes alternative interpretations.

3.0 Draft Determination

The overall objective, which is set out in, the act is as follows;

“Facilitate the development and operation of cost effective airports which meet the requirements of users”

The draft determination having prepared and outlined an approach to deliver the statutory objective has decided that the best way to deliver the objective set in the act is to set maximum charges for each of the 3 airports and thus create a situation where the airports are treated as separate units. We believe that this approach may achieve the objective in a superficial way in the short term but that it does not form a sound strategy for the long term development and providing the **“users”** of the airports with airports which will continue to serve the interests of the future users of the airports.

The approach of taking each airport as a separate unit ignores the principle of economies of scale. If Aer Rianta were allowed to operate the 3 airports as one unit it would result in efficiencies being achieved in the future as numbers grow and the recent capital investment begins to pay off. The ability to spread the growth in passenger numbers between airports will result in efficiencies both on the infrastructure of the airports themselves and on the supporting infrastructure, which is required to service the airports.

This approach will mean that Aer Rianta will be able to manage the business as a whole rather than having to cope with the management of 3 disparate units, which will not lead to the goal congruence, or strategic management. The treatment of the airports as 3 separate units will lead to poor return on investment in Cork and Shannon and will force further large investment in Dublin while there will be under utilisation in both Shannon and Cork.

The maximum charges for each airport as set out in the draft determination is shown as follows as compared to the current charge with the % change.

Airport	Current Average Charge ** IR£	Proposed Charge IR£	% Change
Dublin	4.22	4.96	17.00%
Shannon	4.22	6.05	43.36%
Cork	4.22	7.15	69.00%

Table 1: Summary of Current & Proposed Maximum Charges

**** The current average is based on Aer Rianta information and there may be local variations to these charges**

The result of the maximum charges will be that Shannon and Cork will become unattractive relative to Dublin to existing carriers and that the traffic base of both Airports will be seriously eroded. While we accept the contention that the authority is free to charge less than the charges set out above the separation of the airports into 3 distinct units will mean that the maximum charges will have to apply in Cork and Shannon and traffic will be diverted to Dublin

3.0 Statutory factors

Section 3 “the efficient and effective use of all resources by the airport authority”

In developing its response under this heading the commission have focused exclusively on the efficient use of resources. It has further narrowed its definition of efficient to mean international cost competitiveness and Investment.

While it is accepted that international comparisons are useful in a cost analysis we believe that this is a very narrow interpretation of the efficient use of resources. There is no account taken in the study of cost efficiency of the unique rural setting in which Shannon operates and the consequential investment which is required.

There is also no consideration given to the effective use of the resources. We believe that the effective use of resources should be measured by way of the contribution to the regional economy in which the airport operates. The effective use of resources we believe should take into account the original philosophy & objective against which the Airport was established and the role it plays both in the economic and social infrastructure of the whole western seaboard.

To demonstrate the measure of how effective Shannon has been to date we must look at what has been achieved in the past as a guide to what can be achieved in the future. Prior to the development of the airport the Mid West and West was lacking any major industrial base and the region was haemorrhaging through the constant drain of human resources to emigration. The establishment of the Airport was the catalyst for the creation of a sound economic base and the creation of vibrant communities in the region. This has been so successful that the region of Galway, Clare & Limerick is seen as a model for industrial development and especially in the area of high value/high skill technology based companies.

Section 4 “ the contribution of the airport to the region in which it is located ”

The approach taken by the commission under this factor relates to the comparison of subsidy versus setting maximum charges as the means of achieving the statutory objective with regard to this factor. We feel however, that this is not a valid approach and ignores the real issue of the contribution made to the region and the important part that the airport will continue to play in the region in which it operates.

The development of Shannon Airport in a unique rural setting without a significant population base in its immediate hinterland was at the time a ground-breaking strategy by the Irish Government. The location of the airport was to become the catalyst for unprecedented economic development in the immediate region. Today Shannon Airport continues to play a vital role in the regional development policy of the local authorities in its catchment areas and it is also a vital component of the inward investment strategy of Shannon Development and the IDA. It serves as an economic and social lifeline for the west, Mid West and South West and ensures that the investment and industries that have located in the region will remain.

Any deminution of the traffic base in Shannon could have a direct adverse effect on the location of large multinationals in the region and consequently would directly affect the livelihoods of thousands of workers in the region who are employed directly and indirectly in support businesses in the region. This would include the tourist related businesses on which the region also relies heavily.

Section 8 *“the cost competitiveness and operational efficiency of airport services at the airport with respect to International practice”*

The draft determination accepts that the process of benchmarking should be approached with considerable caution. While we would agree with this sentiment we believe that benchmarking can provide valuable comparative analysis when the comparisons used are valid and as close to the requirement as possible.

In the case of Shannon a number of airports were included in the peer group for comparisons. A number of points have to be made in relation to this peer group.

The same peer group was used for both Shannon and Cork. This is invalid as Shannon and Cork are not comparable airports. The airports listed in the Shannon/Cork peer group namely Euroairport Basel-Mulhouse, Cardiff, Leeds-Bradford, London Luton are much more closely comparable to the business model of Cork airport than Shannon. The following areas are the main ones where distinctions arise;

Nature of services provided

There is no transatlantic service provided from Cork, where Cork operates as a feeder to Dublin for the purpose of onward transatlantic flights. The other airports in the peer group are similar to Cork in this respect.

Nature of the Location

Cork and the other Airports are located adjacent to large centres of population. This is not the case with Shannon

Support Services provided

Due to the nature of Shannon airport and the services provided and the fact that Shannon acts as an access point rather than a destination support services in the area of catering and Aviation fuels have developed at Shannon. Consequently this has enabled Shannon to be very successful in attracting new business.

We feel therefore that the comparisons drawn are not valid for the purpose of determining international norms when evaluating efficiency, cost effectiveness and return on Investment.

5.0 Summary

In summary we believe that the statutory objectives of the act will be achieved as follows

- That the three Airports should be regulated as one unit for the most cost effective use of the resources of Aer Rianta to deliver the service to all the users of the airports
- The necessity for the essential and dedicated support services at Shannon given the role of Shannon as an access point and as a key economic catalyst in the region.
- To accept that Shannon location and circumstances due to its unique location requires additional consideration when measuring efficiency and international comparisons
 - Substantially Rural Hinterland
 - Serve as access point for Transatlantic services for the regions from Waterford and the entire Western seaboard to Donegal
 - Does not have the required population base adjacent to the Airport