

**SIPTU Submission to the Commission For Aviation Regulation Re:
Draft Determination on Proposed Maximum Levels of Airport Charges.
25-07-2001.**

Under Section 33 of the Aviation Regulation Act (2001), the statutory obligation of the Commission for Aviation Regulation is “to facilitate the development and operation of cost effective airports which meet the requirements of users”. SIPTU believes that several aspects of the Commission’s draft determination on airport charges run contrary to this objective.

Proposed Regulation of Airports as Three Separate Entities.

Our first concern relates to the Commission’s proposal to regulate the Cork, Dublin and Shannon airports as three separate entities rather than as a group of airports operating under one company. If accepted, SIPTU believes that this arrangement would jeopardise the necessary capital investments in each of the individual airports. Capacity building projects in airports tend to involve large scale once-off investments. Frequently, this is due to the indivisible nature of aviation infrastructure. Take, for example, the building of a new runway - there is no marginal return from building half a runway - to serve any useful purpose you need to build the whole thing. Similarly, there is a limit to how much can be achieved by trying to squeeze extra capacity out of antiquated terminal buildings – there comes a time when the whole building has to be upgraded.

In this context, regulating charges for each airport on a stand alone basis would introduce an unwelcome rigidity that would prevent the timely upgrading of individual facilities as needs arise. This would clearly conflict with the statutory objective outlined above. Although the term ‘users’ is undefined in the Act, it is clear that ordinary passengers would suffer from the consequences of the resulting infrastructural deficits. More broadly, the citizens of the regions in which each of the airports are situated would also suffer as the capacity of the airports to act as effective regional gateways would be undermined. This outcome is clearly in conflict with Statutory Factor No.4 of the Act which relates to “the contribution of the airport to the region in which it is located”. Moreover, it is contradictory to the established Government policy of encouraging more even economic development throughout all the regions of Ireland, as espoused in the National Spatial Strategy and the National Development Plan, for example.

SIPTU also argues that the unnecessary rigidity of regulating each airport individually is contrary to Statutory Factor No.9 outlined in the Act, which seeks to impose “the minimum restrictions on the airport authority consistent with the functions of the Commission”. Instead, the union believes that the imposition of a common cap on charges across the three airports would provide Aer Rianta with far greater flexibility in prioritising and funding its capital expenditure programme in a timely and effective manner.

Methodological Issues Regarding the Estimation of Potential Efficiencies.

SIPTU's second concern relates to the Commission's analytical methods. Factored into the proposed maximum charges are the potential operational efficiencies that the Commission believes can be achieved in the airports over the next five years. The level of these potential efficiencies has in turn been estimated by the Commission on the basis of international comparisons of operating expenditure per Work Load Unit (WLU).

This is an extremely crude exercise. For a start, the chosen measure only looks at the cost side of the equation – it completely ignores the benefit side in terms of the level and nature of the services provided. Moreover, it ignores many important structural differences between the chosen international comparators. To some extent the unreliability of this analysis is acknowledged by the Commission's Report No. 6 (see CP6, pp 39-42) – but irrespective of this, the Commission then proceeds to directly use this spurious comparison as a key piece of information in determining price caps on airport charges. SIPTU finds this exercise highly questionable in methodological and procedural terms. The union also finds it questionable in terms of the results it produces. The scope for operational efficiency improvements at Dublin Airport is provisionally estimated at 15% over five years on the basis of international comparisons, while the potential at Shannon is estimated at 25%. The implication is that both airports are operating inefficiently at the present time. This conflicts with SIPTU's extensive hands-on experience of what has been happening on the ground in recent years. In fact, the reality is that substantial improvements in operational efficiency have been achieved with the cooperation of SIPTU members in all three airports.

In conclusion, therefore, the Commission's comparative analysis manifestly fails to clarify Statutory Factor No. 8 identified by the Act - "the cost competitiveness and operational efficiency of airport services at the airport with respect to international practice". Insofar as this might lead to an imposition of maxima below what is required to maintain adequate standards across a full range of services, it is also repugnant to the overall statutory objective of the Act.