Submission to Commission for Aviation Regulation
Response to Draft Determination 2020-2024

Executive Summary

Ireland's ability to grow living standards and remain competitive depends on having a world-class Airport in its' capital. Dublin Airport's infrastructure is critical, not just for Dublin, but for all of Ireland's citizens, businesses, visitors and investors.

The Commission for Aviation Regulation's (CAR) recently published Draft Determination outlines the maximum level of Airport Charges that Dublin Airport will be allowed to collect from airlines for the next five years. CAR's last determination took place in 2014, the current process will determine the next price determination to cover the period 2020-24. Airport charges cover costs for taking off, landing and parking aircraft, using air bridges, arriving and departing passengers and the transportation of cargo. This is applied as a 'price-cap' for each passenger that uses the airport.

CAR's decision to reduce the Airport Charges by 15% to a flat rate of €7.50 per passenger will have a detrimental impact on the pursuit of this overall goal in delivering a world-class airport. CAR plays an important role in overseeing the governance of Ireland's airports and such a report is necessary, but the impact of the significant reduction in the price per passenger will have far reaching consequences. Dublin Chamber is particularly concerned about the impact that this reduction in revenue will have on the delivery of future large capacity-enhancing infrastructure projects planned for Dublin Airport.

Dublin Chamber and CAR supports the expansion of Dublin airport through the construction of a second runway. It seems inconsistent of CAR, therefore, to put the accompanying capacity enhancing infrastructure projects at risk, by limiting Dublin Airport's capacity to fund them.

The Chamber is also concerned that the reduced income stream imposed by the Draft Determination limits the airport's ability to respond appropriately to potential economic shocks. A reduction to the airport's income of €50m per annum removes financial flexibility and threatens overall resilience.

Dublin Chamber puts forward the view that an upward revision of the permitted airport charges is warranted.

Draft Determination

CAR's draft determination on Airport Charges proposes setting an annual per passenger price cap of €7.50 for each of the next five years. This is a 15% reduction on the base price cap in 2019. According to the airport's figures this will result in a €50million annual revenue reduction.

According to the Draft Determination Dublin Airport has been set an ambitious target of 37.8m passengers per annum by 2024 with CAR expecting an average growth in passenger numbers of 3.1% per annum.

The CAR Draft Determination identifies two downward pressures to justify the price decrease; volumes of passengers and level of commercial revenues. However, the Chamber is concerned that the Regulator has not adequately taken into consideration the impact of the capital projects, increasing costs at the airport, and potential risk factors to growth.

Dublin Airport in its initial submission argued that it has increasing operating costs and a higher cost of capital and therefore the rate should be ranging from a flat €9.05 to a flat €9.94, this is an increase from the current rate of €8.81. Along with that marginal increase Dublin Airport had proposed almost 2bn in investment, while maintaining flat pricing for its airline customers.

Support for a world-class Airport

One of the key National Strategic Outcomes identified in the National Planning Framework (NPF) is the importance of high-quality international connectivity. The NPF identified Dublin Airport as a strategic investment priority to achieve this[1]. However, the Chamber believes that the impact of the regulators judgement will have far reaching consequences for the implementation and planned upgrade of Dublin Airport's infrastructure and facilities.

Airports need to be able to adapt to the changing needs of the industry which is why the development of a second runway has been mandated by the Government's National Aviation Policy (NAP). The new North Runway is expected to deliver a 31% increase in connectivity by 2034.[2] This enhanced connectivity and capacity will ensure Dublin Airport's position as a leading European airport, a gateway to North America and key driver of Ireland's sustainable economic growth. Dublin Chamber believes that the Regulator's decision to significantly restrict the income of Dublin Airport at a key time of strategic growth is at odds with Government policy.

Investment in airport infrastructure requires long-term planning to ensure the necessary facilities are in place to ensure future passenger growth as well as anticipating future aviation demands. Such long-term planning requires steady financial and economic growth. CAR's decision to dramatically reduce a key stream of income by 15% puts significant pressure on the country's largest airport's current and future plans.

The impact of the Regulator's decision will result in a €50 million per year loss of revenue for Dublin Airport and this unexpected loss in revenue will have a significant impact on their plans and ability to complete necessary major infrastructure projects.

The Chamber is concerned that if CAR proceeds with the proposed cost per passenger it runs the risk of delaying the delivery of major national infrastructure projects, such as the North Runway and runs the risk of the ancillary necessary infrastructure not being put in place to support the enhanced capacity offered by the new runway.

The report fails to appropriately look at the resulting far reaching financial impacts on Dublin Airport at a time of growth and expansion. In the Draft Determination CAR outlines how it has undertaken detailed analysis of the need for each of the capital projects proposed by Dublin Airport in its fiscal capital Investment Programme 2020+. CAR noted the importance of the proposed projects in achieving capacity of 40m passengers per annum and have stated their support for all outlined capital projects. Dublin Airport's capital programme includes necessary works on life expired assets, works to maintain international standards

[1] https://www.housing.gov.ie/sites/default/files/publications/files/project_ireland_2040_npf_7mb.pdf

[2] https://www.dublinairport.com/north-runway/benefits

(such as security) and, crucially capacity enhancing measures such as improved parking and docking facilities for aircraft. The Chamber welcomes CAR's approval and support for the €1.83bn spend on major capital investments at the airport. It is curious, however, that CAR expects these capital works to be achieved, whilst reducing future incomes at Dublin Airport and reducing its credit rating. Dublin Airport have publicly stated that the CAR decision puts this future investment plans at risk. It would seem prudent therefore, for an independent analysis of the commercial viability of the €1.83bn investment programme, given the new pricing structure proposed by CAR.

Ireland's International Connectivity

The significance of Dublin Airport as a key national economic resource has grown considerably over the past 14 years. CSO figures indicate that Dublin Airport's market share of passengers increased from 73% in 2005 to 84.9% in 2019.[3] In 2017 Dublin Airport was the 11th largest airport in the EU and the fastest growing of Europe's largest 20 airports.[4] International connectivity is crucial for Ireland's overall competitiveness and wellbeing. Brexit poses both new challenges and opportunities for Ireland and in order to address those challenges Ireland needs to diversify its markets and establish new trade routes. Investment in Ireland's ports and airports is an essential element in achieving this. In the last quarter overseas trips to Ireland increased by 5.5% with 95% of those trips being by air.[5]

If Ireland fails to maintain its international connectivity, Government risks damaging Ireland's attractiveness as a hub for FDI or to potential employees considering relocating. Between January and March this year over 70% of overseas trips into Ireland were for the purposes of business or tourism.[6] The NPF puts forward the argument that in the event of Brexit taking place Ireland's direct linkages with other EU countries may become significantly more important. Ireland's airports need to be facilitating faster transit times and enhanced routes. Investment in these areas is crucial in terms of improving Ireland's overall resilience.

Impact of Risk Factors

The CAR's rational for the lower price per person is largely based on increased volumes, in terms of passenger numbers. However CAR is predicting exceptional growth in demand while failing to factor in potential threats to undermine increases in passenger numbers.

CAR uses the IMF October 2018 Irish GDP forecasts in its model, predicting growth of 3% per annum. This fails to take into account the potential impact of economic shock factors, such as Brexit and increased protectionism, which could significantly impact on GDP growth. The Draft Determination outlines that future growth figures for passenger numbers are directly linked to GDP growth. According to the ERSI, in the case of the scenario of a disorderly no deal Brexit domestic real GDP is estimated to rise by just 1.2% in 2019 and

[3] https://www.cso.ie/en/releasesandpublications/er/as/aviationstatisticsquarter12019/
[4] https://consult.fingal.ie/en/consultation/dublin-airport-strategic-issues-paper/chapter/2-strategic-significance-dublin-airport
[5] https://www.cso.ie/en/releasesandpublications/er/tt/tourismandtravelquarter12019/
[6] https://www.cso.ie/en/releasesandpublications/er/tt/tourismandtravelquarter12019/

2.4% in 2020.[7] This would have a significant impact on potential passenger numbers and presents a major risk for Dublin Airport.

The report also fails to account for risk factors such as global trade factors, industrial action, economic shocks or issues within the aviation industry. These would have significant impacts on passenger numbers in the airport and thus on revenue generation.

Benefit to External Benchmarking

The Draft Determination shows that CAR did not conduct extensive benchmarking despite Dublin Airport and Ryanair making a request for this to be included in the analysis. As an international airport and one of the busiest in Europe, benchmarking would provide an appropriate international comparison to determine a per passenger rate considering Dublin's position as a key competitor.

Heathrow Airport in London is also going through a period of strategic expansion, all be it on a larger scale with a £14bn project cost. It is introducing a maximum price per passenger for 2019 of £22.913[8]. Adolfo Suarez Madrid –Banjas Airport in Spain has a fee per passenger of €14.73 for passengers in the EEC and €20.84 for international passengers.[9] Similarly, in Munich, the average rate per passenger in Munich Airport rate per passenger is €20.35.[10] These figures, when compared to the proposed rate of €7.50 per passenger for Dublin, show a stark difference internationally and suggest that the Dublin Airport recommended flat rate of €9.04 to €9.94 is in fact extremely competitive.

In a regional context Ireland's smaller airports charge their per passenger fee based on what Dublin is charging. They offer lower prices to enable them to compete with Dublin for routes. In reducing the amount that Dublin Airport can charge it will have the knock on effect of reducing the rates across the board, impacting their ability to provide the same high level of service.

Who Will Benefit?

An expectation is communicated by CAR that the cost reduction will be passed on to the customers by airlines due to the high levels of competition in the market. However, there is no evidence to support this assumption.[11]. Airlines could choose to increase their own profits and no real impact would be felt by the passenger. The reduced fee may not have the impact of increasing passenger numbers and enhancing new routes, as they are already being delivered by the airport. Since the start of this year Dublin Airport has opened 20 new routes to locations such as Montreal, Minneapolis, Dubrovnik, Calgary, Kyiv and Dallas.

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[7] https://www.irishexaminer.com/breakingnews/ireland/brexit-to-hit-irelands-economic-growth-according-to-report-913582.html

[8] https://www.heathrow.com/file_source/Company/Static/PDF/Partnersandsuppliers/Heathrow-Airport-Charges-Consultation-Document-2019.pdf

[9] https://www.munich-airport.com/_b/0000000000000005491560bb5c0e7a3a/Munich-Airport-2019_Part-1.pdf

[10] https://www.munich-airport.com/_b/0000000000000005491560bb5c0e7a3a/Munich-Airport-2019_Part-1.pdf

[11] https://www.rte.ie/news/business/2019/0509/1048432-dublin-airport-fees/

Conclusion

In summary;

- Dublin Airport is a crucial piece of infrastructure for national and regional development and the NPF has identified the development of an additional runway and terminal facilities as a key action point.
- As an island economy, the effectiveness of our international connections and transport routes to the EU and wider global context is vital to ensuring our continued competiveness.
- The Government identified Dublin Airport in the National Planning Framework as a strategic investment priority to achieve high-quality international connectivity.
- The reduction in airport charges to €7.50 per passenger outlined in the Draft Determination has potential to undermine growth at Dublin Airport for decades to come.
- CAR's decision will result in a €50million per year loss of revenue for Dublin Airport
- It will have significant implications for passengers, staff, airlines and tourism, but will also impact on Ireland's regional airports and the wider Irish Economy.
- The draft determination fails to account for potential economic shocks or the impact of risk factors to the Airport.
- While CAR supports the need for the significant capital projects the impact of the regulators decision will have a significant impact on their plans and ability to complete the necessary major infrastructure projects.
- The Chamber calls for an independent analysis of the commercial viability of the €1.83bn investment programme, given the new pricing structure proposed by CAR.
- In conclusion, Dublin Chamber recommends that the Regulator re-consider its decision to lower Airport Charges with a view to ensuring the long term infrastructure plans and the overall competitiveness of the country's largest airport.