

IRISH HOTELS
FEDERATION



Submission to
the Commission
For Aviation
Regulation

MARCH 2001

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
1. INTRODUCTION	6
1.1 INTRODUCTION	6
1.2 THE IRISH HOTEL FEDERATION	6
2. THE IMPORTANCE OF AIR TRAVEL IN IRELAND	7
2.1 INTRODUCTION	7
2.2 THE IMPORTANCE OF AIR TRAVEL TO THE IRISH TOURIST INDUSTRY	7
2.3 THE ROLE OF THE STATE IN THE AVIATION SECTOR IN IRELAND	9
2.4 CONCLUSION	9
3. KEY PRINCIPLES	10
3.1 INTRODUCTION	10
3.2 FRAMEWORK FOR THE ECONOMIC REGULATION OF IRISH AIRPORTS	10
3.3 AGGREGATION OF AIRPORTS	10
3.4 STRUCTURE OF CHARGING REGIME	11
3.5 EFFECTIVENESS AND EFFICIENCY	11
3.6 SCOPE FOR COMPETITION	12
3.7 REGIONAL CONSIDERATIONS	12
3.8 OPERATING COSTS	12
3.9 SERVICE QUALITY	12
3.10 CONSULTATION	13
3.11 CONCLUSION	13
4. CONCLUSION AND RECOMMENDATIONS	14
4.1 CONCLUSION AND RECOMMENDATIONS	14

EXECUTIVE SUMMARY

Introduction

The Irish Hotel Federation (IHF) is committed to a regulatory regime aimed at maximising the facilitation of the tourism industry. The tourism industry represents an important driver of economic activity in Ireland, contributing both directly and indirectly to an array of different sectors in the Irish economy. The ambitious tourism growth targets outlined in the National Development Plan 2000-2006, will undoubtedly require the active support of air transport operators in Ireland, particularly the provision of low cost air transport access.

Framework for Regulation

The Commission's published Consultation Paper (CP2/2001) suggested two models for developing a framework for regulation of airport charges:

- ❑ Rate of Return Regulation
- ❑ Incentive Regulation

The IHF is totally opposed to the Rate of Return Model and strongly advocates a third model, whereby, capital expenditure is removed from the calculation of charges and the ownership of, and responsibility for, airport infrastructure remains with the State. The State should thereby secure an effective provider to manage the airports on an operational basis.

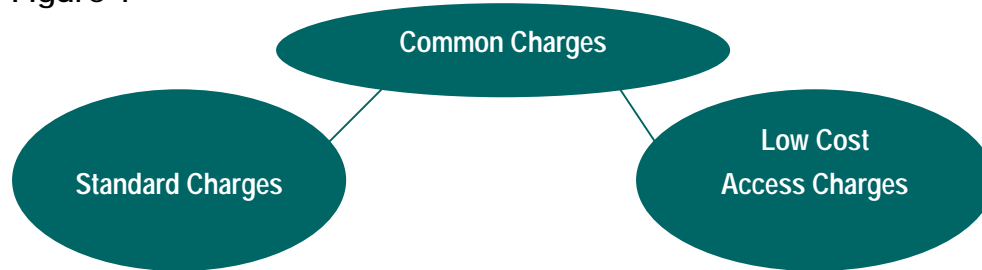
Aggregation of Airports

The IHF is supportive of the regulation of airports on an aggregate basis, incorporating flexibility for the operator to vary charges at Cork and Shannon airports. The IHF believes that the operation of flexible charges at these airports, including zero landing charges and the provision of additional infrastructural supports is needed to increase air travel use to Shannon and Cork airports, both to ensure their long term sustainability and meet regional development requirements.

Structure of Charging Regime

The charging regime proposed by the IHF, as illustrated in Figure 1, is underpinned by approaches to charges aimed to provide an incentive to airport operators to increase passenger throughput at State airports.

Figure 1



The regime proposed comprises a basket of charges common to all airline operators relating to aircraft movement and safety etc and separate baskets of charges for standard and low cost passenger facilities appropriate to the level of service provided. Each of these baskets of charges would be price-capped and the application of the single till principle used in assessing the operator's income. The IHF opposes the introduction of a price-peak loading system, supporting instead the overall standardisation of charges with differential pricing for off-peak periods i.e. the introduction of price reductions. The IHF believes that charges should not be recovered directly from passengers.

Efficiency, Effectiveness and Quality

The efficiency, effectiveness and quality of service provided by an airport operator should be subject to a benchmarking system operated in the medium to long term. Such an exercise would be based on a direct comparability of services and would seek to identify best practise for the appropriate level of service.

Initially, an assessment of the efficiency, effectiveness and quality of service provided by the airport operator should be based on internal considerations, including a consultation process with, for example, carriers and industry representative organisations.

It is vital that the starting point determined for such an assessment or benchmarking exercise does not reflect any existing inefficiencies. The IHF proposes, therefore, that independent specialists review the current system and seek to address inefficiencies such as the 'gold plating' of airport infrastructure, where it exists.

Scope for Competition

The Commission's Consultation paper has posed the question of whether scope for greater competition of airports' services currently exists. The IHF believes that competition should be increased in relation to terminal construction and operation. Greater competition should focus on the provision of low cost air access to passengers.

Consultation

A process of statutory consultation, inclusive of government, the airport operator, carriers and industry representative organisations, should be embraced to inform investment plans (capital expenditure) and the operator's business plans (operational expenditure) of the airports. The consultation process should also provide for independent arbitration by the regulator in the event of disagreement between the various parties.

Conclusion

Air transport plays a vital role in the development of Irish industry, particularly the Irish tourism industry. In view of this, the IHF believes that the Commission for Aviation Regulation should consider the core principles outlined in this submission when making its determination in relation to the economic regulation of airport charges in Ireland.

1. INTRODUCTION

1.1 Introduction

The IHF welcomes the opportunity to make this submission in response to the Commission's published Consultation Paper (CP2/2001) on the economic regulation of airport charges in Ireland. This submission sets out a number of key principles, which the IHF believes should underpin any proposed system of airport charges in Ireland.

1.2 The Irish Hotel Federation

Founded over 60 years ago, the IHF is the national organisation of the hotel and guesthouse industry in Ireland. Having a workforce of over 60, 000 people and representing 43, 000 hotel and guesthouse rooms, the IHF is the largest representative body within the Irish Tourist Industry. The Federation is officially recognised by Government and State Agencies as representing the tourist industry. Its primary functions are to promote and defend the interests of its members. The IHF currently has in excess of 900 members. Through its participation in a wide range of bodies, the Federation provides a strong voice for hotel and guesthouse proprietors and other associated organisations, which have an interest in the successful development of this sector of Irish industry. The IHF provides a range of other services to its members including marketing and promotion, travel concessions, insurance and health, communications, advice and information services.

The IHF is divided into eleven regional branches, with its head office based in Dublin. The organisation is managed by a National Council, elected from its membership on an annual basis.

2. THE IMPORTANCE OF AIR TRAVEL IN IRELAND

2.1 Introduction

In view of Ireland's geographical position as an island on the western periphery of Europe, transport access plays a vital role in the Irish economy. Ireland relies on efficient transport access for a number of reasons, including the delivery of its exports and attraction as a tourist destination. The IHF is fully aware of the important role that air access in particular, plays in the tourist industry in Ireland and therefore recognises the need for the Irish Government to ensure that efficient, competitive and appropriate access is provided to attract tourists.

2.2 The Importance of Air Travel to the Irish Tourist Industry

The tourist industry has long been recognised as an important driver of economic growth in the country, contributing both directly and indirectly to the growth of a range of sectors right across the economy. The tourist industry's contribution to Ireland's Gross Domestic Product (GDP) in the period 1997-1999 is outlined in **Table 1** below.

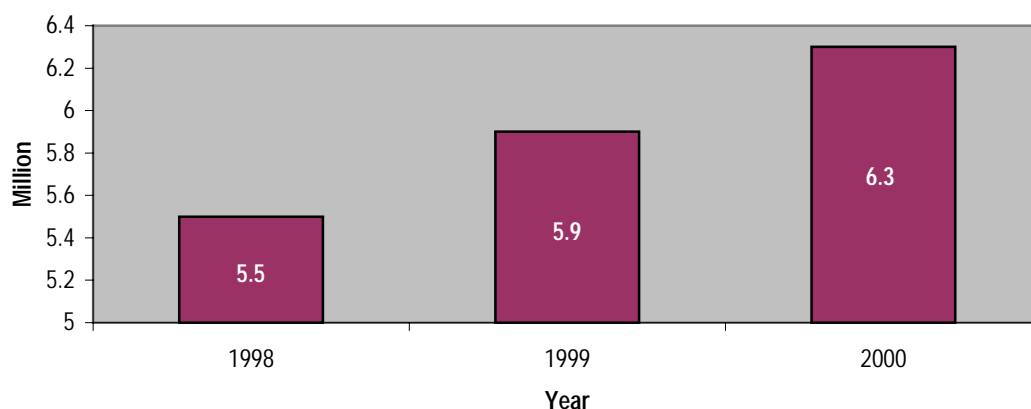
Table 1: Hotel and Restaurant Contribution to Ireland's GDP 1997-1999

Year	IR£
1997	1,629,606,000
1998	1,715,488,000
1999	1,825,156,000

Source: CSO

Tourism in Ireland has, as illustrated in **Figure 2**, continually increased over recent years and the Government's commitment to the expansion of the tourism industry has been recently demonstrated in the National Development Plan 2000-2006.

Figure 2: Overseas Tourists to Ireland



Source: Bord Fáilte

Sou

As outlined in the Strategy for Growth Beyond 2002 (Irish Tourist Industry Federation, 1998), the tourist industry is committed to attracting an increasing number of visitors to Ireland in the future, with a target of between 7 and 8 million visitors set for 2002. It has, therefore, identified a need to invest in marketing, training and new facilities for this to occur. However, such promising plans for the industry are worthless unless supported by a safe, competitive, convenient and accessible transport system.

Ireland, as a peripheral location, suffers from a dearth of travel options, which greatly impacts on the tourist industry. The limited travel access to Ireland, in effect, presents many potential visitors to the country with two options – using air access to Ireland or not travelling to the country at all. **Table 2** below, outlines the number of passengers to the country's three main airports in 2000 and the percentage increase in the period January 2000 – June 2000, in comparison to a similar period in 1999.

Table 2: Passenger Numbers to Irish International Airports in 2000

Airport	Passenger Numbers	% Increase Jan'00 - June'00
Dublin	13,843,528	7
Shannon	1,600,000	14
Cork	2,400,000	15

Source: Aer Rianta

With the level of air transport passenger growth in these airports expected to continue to expand in the future, an efficient air access to Ireland is of paramount importance to the country's tourist industry.

2.3 The Role of the State in the Aviation Sector in Ireland

The IHF believes that, in view of the centrality of air access to the national interest, the State must continue to play a central role in aviation to successfully address the current and future challenges facing the industry:

- With a view to aiding the future development of Irish airports, the IHF are convinced of the need for the State to retain ownership of the airports' infrastructure and secure an effective provider to manage the airports on an operational basis.
- The IHF strongly believe that an objective of State policy within the Irish aviation sector should be the provision of the option of low cost air access at Irish airports.

2.4 Conclusion

Air transport plays a vital role in the development of Irish industry, particularly the Irish tourist industry. The tourist industry, which is greatly reliant on air travel, is an important generator of economic activity in Ireland. The importance of the industry should, therefore, be reflected by the continuance of the State's key role in the aviation sector and its commitment to providing low cost and efficient air transport access to Ireland.

3. KEY PRINCIPLES

3.1 Introduction

As outlined in **Section 2**, the tourism industry represents an important driving force in the Irish economy. Due to Ireland's peripheral location in Europe and the dearth of travel options available in Ireland, air transport access is essential to the future development of the Irish tourist industry. Therefore, the tourist industry's ability to develop and flourish in the future is dependent on efficient and competitive air transport so that potential visitors are not deterred from coming to Ireland. Within this context and in response to the Commission's Consultation Paper, a number of the key principles of the IHF are outlined below and should be considered by the Commission for Aviation Regulation in determining the regulation of airport charges.

3.2 Framework for the Economic Regulation of Irish Airports

The Commission's published Consultation Paper (CP2/2001) suggested two models for developing a framework for regulation of airport charges:

- Rate of Return Regulation
- Incentive Regulation

The IHF is totally opposed to the Rate of Return Model and strongly advocates a third model. The framework for regulation preferred by the IHF involves the retention by the State of ownership of the airports' infrastructure, the removal of capital expenditure from charge calculation and the attainment of a service provider to manage this on a daily basis. In addition to developing road and rail infrastructure, the State also has a responsibility to develop air infrastructure in Ireland. Therefore, capital expenditure should be funded by the state and not reflected in charges to airline operators or passengers. Given the important role air transport plays in Ireland, the State should also be committed to the provision of the option of low cost air access.

3.3 Aggregation of Airports

The IHF is supportive of the regulation of airports on an aggregate basis, incorporating flexibility for the operator to vary charges at Cork and Shannon airports. The IHF believes that the operation of flexible charges at these airports is needed to increase air travel use to Shannon and Cork airports, both to ensure their long-term sustainability and meet regional development requirements. Regional considerations are examined further in Section 3.7 below.

3.4 Structure of Charging Regime

The provision of efficient air transport in Ireland is essential to both the tourist industry and the overall economic development of the country. Increasing passenger throughput must be the key objective of the charging regime. This has a number of consequences in determining charges:

The IHF proposes a regime comprising a basket of charges common to all airline operators relating to aircraft movement and safety *etc* and separate baskets of charges for standard and low cost passenger facilities appropriate to the level of service provided. Each of these baskets of charges would be price-capped and the application of the single till principle used in assessing the operator's income.

The IHF opposes the introduction of a price-peak loading system, instead supporting the overall standardisation of charges with differential pricing for off-peak periods *i.e.* the introduction of price reductions.

The IHF recommends that Government commission an independent evaluation of the existing landing charge structure, to examine its potential in view of the above principles, as a starting point for the new charge structures.

Charges to airlines and passengers should be minimised and determined by market forces only.

3.5 Effectiveness and Efficiency

The effectiveness and efficiency of the airport authority is of paramount importance in attracting airline providers and providing high level services to passengers. Neither the airline providers nor passengers should suffer from higher charges due to an airport authority's inefficient costs.

The efficiency, effectiveness and quality of service provided by an airport operator should, therefore, be subject to a benchmarking system operated in the medium to long term. Such an exercise would be based on a direct comparability of services and would seek to identify best practise for the appropriate level of service.

Initially, an assessment of the efficiency, effectiveness and quality of service provided by the airport operator should be based on internal considerations, including a consultation process with, for example, carriers and industry representative organisations.

It is vital that the starting point determined for such an assessment or benchmarking exercise does not reflect any existing inefficiencies. The IHF proposes, therefore, that independent specialists review the current system and seek to address inefficiencies such as the current gold plating of airport infrastructure, where it exists.

3.6 Scope for Competition

The Commission's Consultation paper has posed the question of whether scope for greater competition of airports' services currently exists. The IHF believes that competition should be increased in relation to terminal construction and operation. Greater competition should focus on the provision of low cost air access to passengers.

3.7 Regional Considerations

Whilst Dublin Airport represents the hub of air transport access into this country, Cork and Shannon airports provide a vital access route to Ireland's southern and eastern regions. These airports are important drivers of sustainable economic growth, encouraging tourism, commercial and industrial development in Ireland. An efficient, low-cost and frequent air service to the southern and eastern regions of Ireland is crucial for the dispersal of visitors, and subsequently the distribution of economic activity. It is also imperative for the future survival and expansion of Ireland's tourist industry that the needs of tourists are fully accommodated, including accessible air transport throughout Ireland.

In the *National Development Plan 2000-2006* and the *National Spatial Strategy*, the Government has reiterated its commitment to fostering balanced regional development, focusing on the spread of economic growth and infrastructural development throughout the whole country. In keeping with this, Cork and Shannon airports, as drivers of economic growth, should be fully exploited in achieving the targets set for southern and eastern regional development outlined in the *National Development Plan 2000-2006*.

Due to the important role played by these airports in forwarding and distributing economic activity, the IHF believe that the State should be committed to the further expansion and development of Ireland's airports. The IHF believes that Shannon and Cork airports should be given incentives, *e.g.* zero landing charges and the provision of additional infrastructural supports, in order to encourage air travel usage. In turn, the increased use of these airports would act as a catalyst for economic development nationwide.

3.8 Operating Costs

The airport operator should operate as efficiently as possible and operating costs incurred due to inefficiencies should not be passed on to the airline operators or passengers as higher charges.

3.9 Service Quality

A two-tier air transport service should be embraced at government level, thus providing passengers with the option of low cost air access. A two-tier service would be comprised of a low cost and standard cost services with appropriate, respective levels of service and standards of facilities.

3.10 Consultation

Infrastructural investment plans and the operational business plans of the designated operator should be subject to a process of statutory consultation. Such consultation should include government, the airport operator, the carriers and industry representative organisations. The consultation process should also provide for independent arbitration in the event of disagreement between parties.

3.11 Conclusion

In view of the role played by air transport to the Irish tourist industry, the State must continue to play a role as the proprietor of airport infrastructure. A service provider should then be responsible for the operation of this infrastructure. The use of air travel should be made as attractive as possible to visitors: charges ought to be minimised, the option of low cost air access offered and an efficient and effective service provided. Due to the commitment by Government for balanced regional development in Ireland and the vital role played by airports in facilitating this, as well as meeting the requirements of tourists for an accessible air transport service throughout the island, airports should be supported and expanded to ensure their sustainability in the future.

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion and Recommendations

An efficient, competitive and accessible air transport service is central to increasing passenger numbers and the future expansion of the tourist industry in Ireland. Low cost fares, ease of access to and within a destination, frequent and reliable services are major factors determining the choice of location for tourists. The tourist industry represents an important driver of economic growth in Ireland and air transport is one of the industry's vital components.

In summary of this submission, the IHF propose the following recommendations for consideration by the Commission for Aviation Regulation:

The State should retain ownership of the **airport infrastructure** and select a service provider to manage this on an operational basis.

Agreed **capital expenditure** of the airport operator should be funded by the State and not reflected in charges. The State has an obligation to develop air infrastructure, equivalent to its responsibility to develop road and rail infrastructure.

The regulation of airports should take place on an **aggregate basis**, incorporating flexibility for the operator to vary charges at Cork and Shannon airports.

The IHF proposes a regime comprising a **basket of charges** common to all airline operators and separate baskets of charges for standard and low cost passenger facilities appropriate to the level of service provided. Each of these baskets of charges would be **price-capped** and the application of the **single till principle** used in assessing the operator's income.

The IHF opposes the introduction of a price-peak loading system, instead supporting the overall **standardisation of charges with differential pricing for off-peak periods** *i.e.* the introduction of price reductions.

The Government should commission an independent evaluation of the existing **landing charge structure** with a view to establishing its appropriateness or otherwise, in view of the principles outlined in this submission, as a starting point for the new charges structures.

Charges to airline operators should be minimised and determined by market forces only.

Charges should not be recovered directly from passengers.

The efficiency, effectiveness and quality of service provided by an airport operator should be subject to a **benchmarking system** operated in the medium to long term. Initially, an assessment of the efficiency, effectiveness and quality of service provided by the airport operator should be based on **internal considerations**, including a consultation process with carriers and industry representative organisations.

Independent specialists should assess the **effectiveness and efficiency** of the current system of the airport authority, as a starting point for the benchmarking exercise.

The IHF believes that **competition** should be increased in relation to terminal construction and operation. Greater competition should focus on the provision of low cost air access to passengers.

In order to encourage air travel usage at Shannon and Cork airports and promote the development of the surrounding area, incentives such as **reduced or zero landing charges and additional infrastructural supports** should be considered.

Inefficient operating costs should not be passed on to the airline operators or passengers as higher charges.

Operating costs should not be recovered directly from passengers.

The provision of the option of **low cost air access** to Irish airports should become an objective of State policy.

The viability of providing a **two-tier air transport service**, which would present passengers with the option of low cost air access, should be explored by the Government.

The future development plans of the designated operator should be subject to an **inclusive process of statutory consultation**, which would also provide for independent arbitration should disagreement arise between the parties involved.

The IHF firmly believes that the Commission for Aviation Regulation should consider the core principles outlined above when making its determination of the economic regulation of airport charges in Ireland.