An Integrated Irish Aviation Policy

Submission to the Department of Transport, Tourism and Sport Consultation

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Introduction

Chambers Ireland is the largest business organisation in the State. With over 55 affiliated Chambers, we represent the views of businesses in every region and sector in the country.

We are dedicated to promoting competitiveness within the business community. In turn, this competitiveness leads to economic growth, stability and job creation and retention.

We contend that An Integrated Irish Aviation Policy must also be focussed on the goals of increased competition, economic growth and job creation.

Due to the structure of the Chamber Network we are in a unique position to draw from the experience and expertise of business organisations throughout Ireland and reach policy positions that represent the interests of the broad business community.

The specific concerns of the State airports in Dublin, Shannon and Cork and the other regional airports located throughout the country are addressed in this submission. However, our focus is consistently on policies and initiatives that will produce the best outcomes for the whole country.

Our views accord with our Air Transport Users Council which has a long track record of involvement in and commenting on Air Transport Policy in Ireland and beyond.[1]

Our submission is the result of consultation with the Chamber Network and members of the Air Transport Users Council who are able to provide insights into the specific needs of the business community in their respective areas.

As an island nation, aviation is of particular importance to all people in Ireland. More than any other country in Europe, Ireland depends on air connectivity for business and personal travel. However, as an organisation that represents the needs of businesses in Ireland, all of the recommendations in this submission focus on how an integrated aviation policy can best serve their needs.

Therefore, this submission focuses on the areas in the issues paper for consultation which we perceive to be most pertinent to the business community.

We propose that all policy and service offerings must support the country's efforts to:

- Sustain the strong record on Foreign Direct Investment;
- Strengthen the domestic economy; and
- Stimulate import and export activity levels.

We are pleased to make this submission to the Department on 'An Integrated Irish Aviation Policy'.

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[1] For example, see "EU/US Air Transport Agreement – Potential Impact on Ireland" by Frederik Sorensen and Alan Dukes commissioned by Chambers Ireland ATUC in 2005 available for download on
http://www.chambers.ie/attachments/pdfs/EU-US%20Air%20Transport%20Agreement%20-%20Potential%20Impact%20on%20Ireland.pdf

Airports

At the outset, we believe that Government must recognise that the policy for State airports should focus on extending connectivity to more international markets, many of which have no direct flights to Ireland. A continued focus on infrastructure and service offerings provided by our airports will be key to delivering enhanced use and supporting the rich connectivity that is so vital to Ireland's recovery.

Access to Infrastructure

1. For the business community, it is important that Ireland's internal road infrastructure supports access to all State airports. We welcome the progress made on the N18, Gort to Oranmore Dual Carriageway. However, we contest that the M20 element of the Atlantic Corridor, linking Cork to Limerick, must remain a priority project for the Government, especially in facilitating business traffic from the south of the country seeking to use routes to North America out of Shannon.

Future Airport Capacity Needs

1. Scale is an opportunity; without scale there will be no services. It follows that the Department and the Irish Aviation Authority must be resolutely focussed on securing as broad a range of airlines flying into and out of Ireland as possible. This must include full service and budget airlines to facilitate as many passengers as possible.
   Additional passengers will be crucial to enhancing margins on other connections out of Ireland that could otherwise be vulnerable.
   Therefore, while airports may currently be operating within terminal and runway capacity, both Government and the IAA must monitor this issue closely and plan for growth as necessary.

2. We must also be cognisant of the need to secure and serve routes from as yet unknown or unquantified markets such as direct flights from Ireland to Beijing or Shanghai.
   Given that Beijing (PEK) is the same distance from Ireland as Los Angeles (LAX), such a route could be opened very easily. It would be of huge benefit to Ireland if this route could be opened without delay.
   In addition to the 'normal' gains secured from a new route opening such as this, it would also incentivise new investors including property funds to look at Ireland as a potential investment market; an issue of great relevance as the tax payer seeks to secure as much as possible for property assets held by NAMA and others.
   In this context, major infrastructural investments such as upgrades to facilities and runways in our three State airports at Shannon, Cork and Dublin could be more easily justified and secured.

3. In the medium term, we note that many observers predict a global airport capacity crunch. This represents an opportunity for Ireland as excess capacity from congested markets such as the UK, and London in particular, are pushed to other markets that have the ability to service these customers. Many of these customers will stay airside and

simply transit to other destinations; however, in using these services they will add to the viability of routes into and out of Ireland.[2]

Regional Airports

The existing regional airports were created, in the main, by the private sector; in many cases by private individuals or community based organisations who were motivated by the desire to improve the economic potential of their local area. Initial private investment was supplemented by Government through PSO, OPEX and CAPEX subventions to support current expenditure and Capital Grant Aid. These funding schemes supported infrastructure developments including hangarage, runways, instrumentation, terminal buildings, car parks, security and safety (including fire tenders) and technical equipment. As a result of these investments the regional airport network comprises high quality facilities with excellent technical and physical infrastructure.

The Aviation Policy must reflect the past investment (public and private) that has been made in the regional airports and the future potential of these assets to support regional economic development. If the policy fails to do this then these assets will inevitably fail to survive and past investment and future potential will become irrelevant.

1. We agree with the contention in the Issues Paper for Consultation that regional airports play a vital role in their regions, acting as a gateway and as an engine for growth. Government should be mindful of the importance of regional airports for tourism and business travellers, particularly in the context of Foreign Direct Investment (FDI), who otherwise struggle to access major, busy airports. As international tourism, particularly in the growing European market, sees a move to an increase in 'short breaks', international air access is vital to supporting international tourism in the regions.

2. Regional airports can also play an enhanced role in supporting:
   - Broad community infrastructure such as medical emergency evacuation and coast guard services;[3] and
   - Future growth areas such as on shore support for emerging hydro carbons, offshore wind and wave and aquaculture industries.

3. There is much debate over how best to approach regional airport strategy and oversight. One model of engagement that Government has recently embraced in another thematic area is the 'tiering' framework set out in the 2013 National Ports Policy.[4] This document identifies 'Ports of Regional Significance' that, while not dealing with large scale

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[2] See: Airports Council International Challenges of Growth 2013 Report: Press Release 11th June 2013 notes that despite fewer traffic growth prospects in the next 20 years, Europe still faces a severe airport capacity crunch. In 2008, airports' plans provided for a 40% increase in capacity by 2030. However, these plans have been severely cut back with capacity now expected to increase by just 17% by 2035. This will result in 12% of demand for air transport not being accommodated due to insufficient airport capacity - or 1.9 million flights per year, with 237 million passengers unable to fly. Airport capacity crunch will be more acute in: Turkey (27%), **UK (14%),** Netherlands (17%), Bulgaria (22%), Hungary (17%), Germany (11%), Poland (9%) and Italy (8%). Repercussions across Europe will be Delays and congestion with forecast average delays expected to rise from 1min to 5-6 min per flight.

[3] For example, The Irish Coastguard operate a busy and efficient helicopter search and rescue from Waterford Airport covering the bust waters off the south-eastern and southern coasts as well as a large inland area.

[4] http://www.transport.ie/uploads/documents/news/National%20Ports%20Policy%202013%20-%20Web.pdf

throughputs, are "best placed within their regional and local communities to allow both develop in a manner that is mutually beneficial."[5] In this context, consideration should be given to the merits and demerits of units of Local Government taking over the administration and oversight of those regional airports classified within the lower tier in the same way that a number of Local Authorities are set to take responsibility for five Tier Three ports in their respective areas following amendments to the current Harbours Acts 1996–2009.[6]

4. Similar metrics should apply to all airports in terms of judging their viability.
   In the context of a competitive system, a matrix of priorities for the provision of subventions to regional airports that serve locations where market failures exist should be considered. Upon creation of the matrix it should be used to determine any subventions by the Department.

Pricing of Air services

Irish Airlines

1. Competition within the global aviation market remains a crucial issue for the Irish aviation sector.
   We must be mindful of the ongoing consolidation of airlines in Europe into three/four 'family' clusters of businesses. These have the potential to create de facto regional monopolies in the multinational regions serviced by them.
   Point-to-point operators have a different model that is highly flexible and subject to rapid change. These short-haul carriers are therefore not fully comparable with the full service long-haul airlines.
   With the level of consolidation in place, there may well be markets of 'strategic interest' to only one particular 'cluster' of companies. Therefore, for all of our efforts to secure competition, Ireland is vulnerable to becoming a fringe market, semi-disconnected from the main international arteries, especially on eastern and southern bound long-haul destinations.
   It follows that Irish and EU institutions in particular will need to revisit competition policy as it applies to the airline industry; to update it frequently and regularly to ensure it remains relevant.

2. As an island without any land based alternative connections to the UK and mainland Europe, it is essential that Ireland is served as far as possible by competing airlines of scale that are committed to the delivery of broad based air services. Irish businesses must be able to choose between a range of airlines, providing frequent and reliable services from a number of internal airports to a wide range of international destinations.

3. The Irish market is currently dominated by two players. Aer Lingus's submission to the UK Competition Commission on the proposed acquisition by Ryanair of Aer Lingus shows that these two airlines account for 84%, 79% and 80% of short-haul seat capacity at

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[5] Ibid. Pg 13
[6] Ibid. Pg 33

Dublin, Cork and Shannon airports respectively.[7] It follows that any merger would lead to significant market dominance. Furthermore, this would also make the resulting airline a virtual monopsony purchaser of services at those airports in Ireland that it may choose to operate from.

Accordingly, we support the case for further competition between the principal players in the Irish market.[8]

4. See also our answer under Economic Regulation on page 8

Connectivity

1. Ireland's economic recovery is highly dependent on connectivity with our international trading partners. This must be a crucial element of the vision for the IAA as it serves Ireland in the future. Irish and international business users have a need for connectivity and interlining that facilitates their travel needs and schedules in the markets where they do business.

2. Ireland's connectivity can be supported and expanded through necessary investment in State airports to create a viable alternative hub to Heathrow.
    Regulatory and planning decisions taken in relation to State airports should allow for such development.
    Aer Lingus experienced a 36% year-on-year increase in the number of UK passengers flying to North America via Dublin and now handles 100,000 such passengers every year.[9]
    As Heathrow continues to operate at full capacity, there is considerable opportunity for Dublin and other airports to expand their respective long-haul transatlantic business.
    This is of particular benefit for consumers living in northern parts of the UK, as they save considerable time avoiding Heathrow Airport.

3. Dublin - London is the busiest international city pair in the EU. This level of connectivity supports both economic growth and enables Irish business people and workers to secure incomes for their businesses and households by accessing markets in the UK and beyond. Given its strategic importance, we must maintain and secure access to Heathrow and other airports in the UK for the Irish market.
    Connectivity to Heathrow must be maintained from all State airports to support Foreign Direct Investment and exports.
    Irish business greatly values access to other routes and airlines via our rich connectivity to Heathrow. At the time of the privatisation of Aer Lingus, Chambers Ireland and our Air Transport Users Council were assured that the Heathrow slots had been secured for routes servicing Ireland alone.

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[7] http://www.competition-commission.org.uk/assets/competitioncommission/docs/2012/ryanair-aer-lingus/aer_lingus_initial_submission.pdf

[8] For more information see Forfás report on Cost of Doing Business, Pg 59: http://www.forfas.ie/media/08042013-Costs_of_Doing_Business_2012-Publication.pdf

[9] http://www.telegraph.co.uk/finance/newsbysector/transport/10158483/Dublin-airport-an-alternative-hub-to-Heathrow-says-Aer-Lingus.html

4. Those doing business in Ireland also have a considerable reliance on the take-off and landing slots at Heathrow currently held by Aer Lingus. It is essential that these slots remain in place and serve the needs of passengers and cargo to and from Ireland.
   It has been suggested that this issue is less significant than it once was due to the presence of Etihad Airways and Emirates in the Irish market. However, much of their business is dependent on the economies of Australia, China, India, Philippines and Irish tourism to Thailand. Our analysis is that the first four of these five markets are driven by 'friends and family' traffic that could be vulnerable in the event of a significant economic downturn in the Far East. If these markets were to suffer in the future, the essential connectivity that bypasses Heathrow could be lost. In this circumstance, Ireland's access to this major international hub airport becomes ever more important for Irish business travellers and other consumers.

5. Business consumers accessing third locations via hubs such as Heathrow or Dubai require interlining services. These service offerings need to be 'on the menu' for all airline users flying out of Ireland. This is a service option that point-to-point operators do not offer.

6. With ongoing consolidation of European airlines into a small number of dominant airline groups in major hubs, it is essential that Irish aviation policy is resolutely focused on maintaining and increasing access to these major hub airports.

Air Travel Tax

1. An important marker for securing Ireland's place at the top of the global aviation market is to ensure that our fiscal regime is supportive of flight connectivity and infrastructure investment. This awareness of fiscal competitiveness is a vital ingredient in keeping costs to a minimum and securing enhanced activity levels in our aviation terminals. We believe that the Air Travel Tax has materially affected airline capacity. Accordingly, it should ideally be abolished. If it is not abolished, then we would ask Government to provide a clear indication of what this income is ringfenced for. It should not be subsumed into existing marketing budget expenditure.

   The case for the abolition of the Air Travel Tax is made in separate studies by the International Air Transport Association[10] and Price Waterhouse Cooper.[11]

Cargo Services

1. Every effort should be made to secure rich air cargo handling out of Ireland, from each of the State airports, by as many operators as possible. The export of high-end goods is crucial to Ireland's economic recovery. To jeopardise the structures that facilitate this would further harm business in Ireland.

2. There is a strong case for the further development of dedicated cargo terminals at all of Ireland's State airports. This would strengthen existing markets and lead to the development of new markets. Ireland could further develop its potential in serving the air cargo market by making a number of relatively basic improvements. Improved

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[10] http://www.iata.org/whatwedo/Documents/economics/Intervistas_Elasticity_Study_2007.pdf
[11] http://corporate.easyjet.com/~/media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-full.pdf

facilities, to include FDA approved 'cold chain'[12] containers and storage, would further improve Ireland's position as a favoured destination for Pharma investments.

3. The expansion of US preclearance to include cargo would further enhance the competitiveness of Irish exporters.

4. The recent expansion of air connectivity to the West Coast of the US, following representations by a number of US Corporates confirming that they would support such a new route, offers the potential for further service development. In the context of Air Cargo, the scope for cooperation between suppliers and shippers to build the business case for new connections to new markets should be continually researched as a means of developing potential new routes.

5. The Shannon Aviation Business Development Task Force Final Report[13] estimates that an International Aviation Services Centre could create and maintain 5,000 jobs. This could considerably enhance the position of Ireland as a cargo hub. Shannon has the infrastructural capacity to develop such a facility.
    Russian carrier Transaero has expressed an interest in flying from Moscow to the United States via Shannon. This and other investments would become increasingly likely if a specialist cargo terminal was built.

Air Navigation Services

1. It is vitally important that State airports are able to offer 24 hour air traffic control. This will ensure that business customers and other travellers flying home on late night or delayed flights will be able to land at the destination of their choice.
    Furthermore, this can become a security issue if a flight is forced to redirect to an alternative landing site. This relates to inbound flights to Ireland but is also recognition that Irish airports are the main emergency landing site for transatlantic flights to and from Europe.

2. 24 hour coverage is also a vital component in determining the viability of routes into and out of State airports in Ireland. The lack of 24 hour coverage can lead to cost concerns for airlines offering routes serving congested airports in Europe in particular.

Regulation and Governance

Economic Regulation

1. Our regulatory model cannot use airlines as a proxy for passenger interests in determining its decisions regarding regulatory prices and support for infrastructure investments.
    It follows that that IAA needs to engage with the Aviation Regulator to seek as broad a base as possible of aviation users.

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[12] For a full definition of cold chain distribution see: http://log.logcluster.org/response/cold-chain/
[13] http://www.djei.ie/enterprise/support/ShannonAviationBusDevTFReport.pdf

Aviation Security

1. Visa processing procedures must be such that incoming investors and tourists, flying both on 'Irish' and other airline services, feel welcome.

   In this context it is worth examining how we can best officiate our borders. Consideration should be given as to whether a fully uniformed and flexible visa processing service using third party providers would be better able to staff immigration procedures on a more flexible basis than is currently the case.

   This issue is especially pressing with regard to inward tourists and potential investors arriving from markets in India, China, Russia and the United Arab Emirates. This should apply to both citizens and those with long term/multigenerational residency in the UAE, many of whom are very high net worth individuals.[14]

   Government needs to set expectations regarding border control and processing of visitors from these markets in a way that helps to secure further growth in volumes of investment and visitor numbers from these markets.

2. Technology has a substantial role to play in aviation security. The feasibility for Ireland participating in 'Trusted Traveller' programmes such as US Global Entry and IATA Checkpoint of the Future should be examined to foster a sustainable, efficient and effective security process at Irish airports.

Aircraft Leasing and Financing

1. Government deserves credit for the creation of a fiscal and regulatory environment which has allowed Ireland to become the dominant global player in this area. The corporate knowledge possessed gives Ireland a considerable competitive advantage. It is important that this advantage is maintained and built upon to facilitate further growth in this area.

   Specifically, we recommend that the favourable tax environment, including the 0% VAT rating, for aircraft leasing is maintained to support the ongoing growth of this sector.

Maintenance Repair and Overhaul

1. Government must do what it can to build upon Ireland's strong tradition in aircraft Maintenance, Repair and Overhaul (MRO). Ireland can maintain and grow its position as a world leader in this area to support job growth and economic development.

   In particular, developments must be matched with increased education and training in this area. Government and FÁS/SOLAS must work more closely with aviation companies to identify areas where skills shortages may arise in the future and make recommendations to deal with any potential skills gap.

Education and Training

1. The large increase in the world's aircraft fleet over the next 20 years will create a large need for newly trained and skilled employees. It is essential that there is no skills gap between the needs of employers and those possessed by employees.

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[14] See the purchase of the Morrison Hotel in Dublin in early 2013 by a Russian Investor Yelena Baturina as an example of the type of new investors that Ireland needs to welcome.

2. At present, training infrastructure in Ireland is not equipped to cope with this increased demand. An adequate solution will require new training facilities and methods.

Pilot Training

1. Consideration must be given to introducing the Multi-Crew Pilot Licence (MPL)[15] syllabus as a cost-effective method of training pilots. This method of preparing safe, competent airline pilots for a career on a multi-crew flight deck makes much use of modern simulators rather than hours in light aircraft. Therefore, it is not weather dependent and could be introduced in Ireland.

Education

1. Apprenticeships form an integral part of the training process for many aviation-related trades. There must be no 'lag' between skills required by the aviation industry and those held by the workforce in Ireland. Therefore, it is important that FÁS/SOLAS work closely with airlines and airport authorities to ensure there is an adequate supply of skilled technicians/engineers into the future.

Sustainability

Greenhouse Gas Emissions

1. It is essential that any aviation policy for Ireland is aligned with and cognisant of targets being set at a European level. The EU has set targets of a 20% reduction in greenhouse gas emissions, a 20% improvement in energy efficiency and 20% grid energy from renewable sources by 2020. These must be given full consideration when developing the Integrated Aviation Policy.

2. Many stakeholders such as the airport authorities, the airlines and the IAA have control and influence over emissions within the Landing, Take-Off Cycle (LTO cycle). Therefore, it is crucial that the wide range of existing policies and programmes in this area are harmonised and complement each other.

3. If there is an expectation that airport authorities in Ireland are to drive economic growth and reduce emissions, the regulator must allow them to invest in equipment that will enable them to deliver on their commitments.

Local Air Quality/Airport Noise Issues

1. A major issue that needs to be addressed is securing as much flexibility as possible in the use of Ireland's aviation assets.
   Given that Ireland is one hour behind Continental Europe, business commuters and their aviation service providers value the ability to 'fly early from Ireland'. This ensures that commuters arrive at the start of the working day in European destinations.
   It follows that any departure or arrival time limitations that may apply to new infrastructure investments in our airports must be avoided. Not only will this produce

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[15] http://www.iata.org/whatwedo/ops-infra/itqi/Pages/mpl.aspx

more appropriate flight times, it will also support the business case for carriers to grow route connectivity into and out of Ireland.

2. Given the location of our major airports, the large landbanks surrounding them and the relative lack of housing under the major flight paths (when compared to other major airports in Continental Europe) a strong case can be made for *reducing* rather than *increasing* restrictions on the use of these major pieces of infrastructure. It is important that planning authorities ensure land use policies in areas neighbouring airports continue to safeguard future development.

Conclusion

Due to our geographical location and position in the global economy, Ireland will always be heavily dependent on air travel. The rapid pace of change in this sector makes an Integrated Aviation Policy increasingly vital.

The contribution of Ireland's State airports in terms of economic growth and job creation is significant and the potential to increase this contribution cannot be overstated. These airports play a key role in our connectivity to international markets; markets which can be nurtured and developed to achieve further economic progress.

This is a time of significant challenges and opportunities for the entire aviation sector in Ireland.

An integrated aviation policy, which tackles these challenges and exploits these opportunities, will result in considerable benefits for Ireland.

Furthermore, policy makers and regulators must remain mindful of the risks associated with the changing global economy and the aviation sector worldwide.

Above all else, Irish businesses require:

- Competition between a range of airlines, serving all the State airports with a wide range of international destinations;
- Connectivity to locations worldwide including those through Heathrow; and
- A regulatory environment which encourages travel through Ireland and facilitates the growth of a cost competitive aviation sector.

This must result in an aviation sector which helps to:

- Sustain Ireland's strong record on Foreign Direct Investment via rich levels of connectivity to vital Global markets;
- Strengthen the domestic economy by facilitating incoming tourism traffic; and
- Stimulate import and export activity levels.