

New Regional Airports Programme 2020-2024

Submission by [REDACTED] Managing Director, Altair Advisory

Question 1: What category of stakeholder do you represent?

I am the managing director of an aviation strategy consultancy firm, and have many years of experience in airline commercial management and in airport management

Question 2: Having regard to the actions on regional airports in the National Aviation Policy, what are your views on the effectiveness of the current Regional Airports Programme? Please give your views on how effective existing grant schemes are in supporting policy objectives on regional airports.

Airports of all sizes face considerable economic challenges, often linked to the need for substantial capital investments (runway resurfacing, new security equipment, infrastructure refurbishment, etc.). Airports exhibit strong economies of scale in terms of profitability: the smaller the airport, the harder it is to achieve breakeven, and the larger the airport, the more profitable it is likely to be.

The term "regional airport" appears to have acquired a non-literal meaning in the context of Irish aviation policy. A regional airport in the conventional sense of the term (in the rest of the world) is an airport principally serving a regional rather than a national catchment. Thus Knock, Waterford or indeed Cork are regional airports serving their respective regions, whereas Dublin by virtue of its scale attracts passengers from across the island. However "regional airport" in the Irish policy context means "an airport which is not owned by the State": the Regional Airports Programme does not apply to Cork and Shannon airports, even though they are de facto regional airports.

The Issues Paper to which this consultation refers seeks to summarise the aid regime for EC-compliant State Aid in the airports sector. It characterises (p.10) one of the conditions as "Aid should not be granted to airports located in the catchment area (100 kilometres distance or 60 minutes of travel time) of another airport." In fact this is not strictly correct. The actual definition (per EC guidelines 2014/C 99/03) is as follows (my emphasis):

"'catchment area of an airport' means a geographic market boundary that is normally set at around 100 kilometres or around 60 minutes travelling time by car, bus, train or high-speed train; however, the catchment area of a given airport may be different and needs to take into account the specificities of each particular airport. The size and shape of the catchment area varies from airport to airport, and depends on various characteristics of the airport, including its business model, location and the destinations it serves."

I quote this to emphasise the point that 100 kilometres or 60 minutes is not a hard-and-fast boundary which can serve as a get-out-of-jail-free card to automatically exculpate any State Aid to an airport from anti-competitive concerns. It would be ludicrous, for example, to suggest that Dublin Airport's catchment is limited to a 60 minute radius; the point is that in actual practice, the catchment areas of Irish airports overlap. A resident of Galway, for example, may choose to fly from Shannon, Knock or Dublin depending on which airport offers her a flight with the best combination of convenience, price and schedule.

However, the inconsistent nature of the Regional Airports Programme means that one regional airport will receive Exchequer funding for runway renewal or new security measures whereas another, whose catchment overlaps, will have to fund similar work from its own resources.

The result is a strongly tilted playing field. The National Aviation Policy commits to "optimising the operation of the Irish airport network to ensure maximum connectivity to the rest of the world", but no such optimisation takes place in practice. Dublin Airport has a dominant position in terms of air passengers to and from Ireland, and that dominance continues to grow from year to year in the absence of any "optimisation" of the operation of the Irish airport network.

If aviation policy were to actually align with the aims of *Ireland 2040* and support effective regional economic development, the focus of the Regional Airports Programme would be on supporting airports outside Dublin (i.e. the regional airports) rather than on only supporting an arbitrary subset of those airports (the "Regional Airports" in policy-speak, i.e. those regional airports which are not directly State-owned).

The EC State Aid Guidelines for the Aviation Sector explicitly make no distinction between publicly-owned and privately-owned airports. The Regional Airports Programme however continues to support only privately-owned airports. This distorts competition.

I sincerely believe that the current Regional Airports Programme does not serve the overall regional development goal of Project Ireland 2040. Given that the latter project is an overarching whole-of-Government strategy, the Regional Airports Programme – and the 2015 National Aviation Policy under which it falls – should be align with Project Ireland 2040 rather than remaining stuck in an out-of-date view of what constitutes a regional airport.

Question 3: What, if any, changes would you like to see reflected in the new Programme and why?

The new Programme should be aligned with Project Ireland 2040 and should support the regional economic development (including connectivity development) as outlined in the National Planning Framework. Funding should be provided for regional airport operators outside Dublin, without arbitrary (and out-of-date) distinctions as to public-versus-private. That funding should be "means tested" rather than being "free money": can the operator reasonably meet the financial need from its own resources or that of its parent? Funding

should also be assessed in a holistic manner; for example, as noted under Question 5 below, some airports receive additional hidden aid via the structure of the PSO contract which is not reflected in the official Regional Airport Programme aid amounts.

Question 4: How do you think the new Programme can best support Ireland's transition to a low carbon economy, having regard to policy on climate action and sustainability? Responses should indicate potential actions or measures with justification for their consideration. Evidence for the efficacy of proposed measures or further information, such as the associated costs for implementation, may be provided to support your response.

The decarbonisation of the aviation sector is essential if national – and indeed global – emissions targets are to be met. Ireland, as an island, is at a disadvantage in lacking the ability to incentivise a modal switch to rail for short-haul air journeys, as continental European countries can. The most important and urgent measure is to better capture the emissions costs of aviation; ICAO's CORSIA scheme is likely to end up being too little too late and a more focused carbon-pricing regime for aviation fuel may be required. However this should be coupled with incentives to encourage the development and use of sustainable aviation fuel (derived from biomass) for which Ireland is well suited as a future production site.

Question 5: What are your views on the PSO Scheme, the air service routes currently being supported and the need for a continuation of the Scheme beyond 2022?

There is a valid public-policy case for subsidised PSO air services to offset peripherality and to compensate for difficulties in accessing services, and conducting business, where alternative transport modes are inadequate. This has historically been the conceptual basis for the Irish PSO air routes.

Historically the Irish PSO programme has been limited to support for air services within the island of Ireland. In a broader context, Brexit will intensify the future peripherality of Ireland as a whole and of the West of Ireland in particular. Short-haul air services from airports along the Western seaboard are principally to UK destinations (or to sunshine leisure destinations) rather than to European hub airports, meaning that the West of Ireland's European access is ultimately mediated by and dependent on the nature of the future UK/EU relationship. The European regulation concerning PSO routes (EC1008/2008) does not limit the applicability of PSO contracts to domestic flights, and indeed there are a number of international PSO routes across Europe. Research has demonstrated a clear link between regional air connectivity and regional economic growth, and in the context of Brexit and of the aims of Project Ireland 2040, there is a strong argument for the use of PSO-type mechanisms to facilitate direct air connectivity from the West of Ireland to one or more European hub airports, in particular to enhance the business competitiveness of the region and to boost regional economic growth.

While there is a public-policy case for offsetting the negative social and economic effects of peripherality, I submit that there is no valid public-policy case for subsidising Irish residents

to take their holidays abroad. The fact that PSO-funded air routes are currently promoted as part of overseas holiday offers would suggest that taxpayer money is not always being well spent, both because this is not a valid public-policy goal and because it distorts competition (since it disadvantages other airports with overlapping catchments, but without PSOs, who offer direct overseas flights). I would therefore suggest that if the PSO regime is to be retained, it could be appropriate not to pay the per-passenger subsidy in the case of passengers booking the PSO sector as part of an overseas connecting journey.

In the context of the previous question (transition to low-carbon economy), PSO contracts should also be rethought to move beyond passenger growth. The rise in passenger numbers on PSO services is not automatically a good thing, if passengers are choosing a more expensive and more polluting transport mode because it is artificially cheap rather than because they have a specific need (e.g. day return trip for business or medical purposes). This has the potential to distort competition between transport modes.

Future assessments of the competition-distorting aspects of the PSO process should also be more exacting as it relates to competition between airports. The grant of a PSO for a route is intended to be for the benefit of passengers on a route but in practice also represents a substantial subsidy to the airport. For example, it is an open secret that airports which benefit from PSO service typically have a two-tiered charging structure¹. Whereas the airport would charge a normal commercial airline flight a certain amount, it will charge a PSO flight (using the same aircraft, and operating at the same times) considerably more. There is no commercial justification for this; it is a clear case of a hidden subsidy to the airport (a subsidy which is paid in addition to the opex and/or capex funding subsidy which the airport may receive under the Regional Airports Programme). Another way in which an airport can boost its revenue via PSO-specific charges is to declare artificially short opening hours and then to boost its revenue by levying a substantial "out of hours" charge on every PSO flight.

Whereas competitive bids are sought from airlines for PSO services, it appears that airports' "PSO-specific" charging schemes are not challenged in the course of the PSO award process. For the sake of value for money for the Irish taxpayer, as well as to ensure that grant aid paid to airports is transparent, any future PSO contract awards should stipulate that airports can only charge their standard published fees for PSO flights. Otherwise Irish PSO contracts are vulnerable to being found in contravention of EU competition law.

¹ Supporting documentation available on request.