

**shannon GROUP**



**Policy Supports for Regional Airports  
Preparation of new Regional Airports  
Programme 2020 to 2024**

**Shannon Group Submission  
30<sup>th</sup> September 2019**

## Question 1: What category of stakeholder do you represent?

Airport Company

## 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?

Ireland's four regional airports have received circa €94 million in direct state funding over the past seven years (Kerry, €37million; Donegal €39.5m; Knock €17.9m; Waterford €9.3m). The Public Spending Code seeks to ensure that the best possible value-for-money is obtained whenever public money is being spent or invested. A key element of a value for money assessment is measuring the effectiveness of a scheme and particularly assessing the possibility for displacement. To date there has been no analysis assessing displacement arising from the Regional Airports Programme (RAP).

Displacement of air services from non-subsidised State airports to subsidised private airports would suggest that the effectiveness of the RAP is questionable. A DKM report, 'Review of Air Services Supported by the Essential Air Services Programme' prepared for the Department of Transport, noted that *'a system of subvention for regional air services which affects substantially, if indirectly, the finances of the regional airports will thus have consequences for competition between airports'*. Any funding that is made available to airports whether CapEx, OpEx or funds generated from PSO services affects the financial position of that airport and thus can have an impact of their competitive offering. Clearly, any displacement that takes place does not represent Value for Money for the Exchequer and is not effective.

It is also important to consider the potential for displacement of passengers arising from PSO services. The Spending Review 2019 notes that those using PSO routes to Dublin have the possibility to transfer flights at Dublin airport to the wider world. However, no consideration has been given the possibility of displacing passengers from other airports. For instance, Shannon has long been the transatlantic gateway for Ireland, however, if the PSO services now allows passenger within its catchment area to connect to US flights via Dublin this has the effect of displacing Shannon's passenger traffic.

Displacement may also occur with respect to other transport modes, particularly rail. The 2019 Spending Review noted that there is only a 15-minute time difference between travelling from Kerry Airport on a PSO subsidised service versus taking the train. Given the ongoing subvention by the State of rail services, it is prudent to assess the impact of PSO services on the usage levels. The 2011 AECOM report '2030 Rail Network Strategy Review' noted the potential for modal shift of passengers from air to rail services.

Furthermore, as noted in the Spending Review 2019, A Review of the Regional Airports Programme there is no detailed surveys capturing passenger profiles. The Report noted that *'factors such as origin, destination and journey purpose would be valuable in evaluating the impact'* and *'that the next RAP should require surveys capturing passenger profiles'*. It is critical that this type of information is collated in order to assess the potential for displacement of passengers from other airports, particularly given the proximity of subsidised airports to non-subsidised airports.

Finally, there is limited information publicly available to assess what airports are doing to avoid being dependent on state supports or how they are adjusting their business model.

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

The Regional Airports Programme should be extended to include all airports under 3 million passengers. The current justification for not including State airports such as Shannon or Cork in the Regional Airports Programme is that they lie more than 60 minutes or 100 kilometres away from subsidised airports. Whilst the European Commission's definition for the catchment area of an airport, as defined in the State Aid Guidelines, sets a boundary of 60 minutes or 100 kilometres, the guidelines do note that the catchment area needs to consider the specificities of each particular airport. In the Irish context, there is no assessment of how the catchment areas of state-owned airports and private subsidised airports overlap and therefore no recognition of the fact that State owned airports are in fact impacted by the current scheme. The exclusion of State airports from funding is distorting the competitive aviation landscape within the State.

Shannon Airport is located 118km from Kerry Airport and 157km from Knock Airport. Likewise, Cork Airport is located 105km from Kerry Airport. It is well accepted in the aviation industry that airlines and airports define their market in a much wider context than merely 60 minutes or 100km. Most airlines and airports look at catchment areas of at least a 2- hour drive time. The current application of the rule by the Irish Government fails to recognise situations where the catchment areas of airports overlap particularly for key urban markets. There is evidence that airports that are further than 60minutes or 100km are in fact competing and have overlapping catchment areas. The 'Spending Review 2019 A Review of the Regional Airports Programme' conducted by the Irish Government notes that *'the one-hour catchment of the airport (Ireland West Airport Knock) overlaps with that of Shannon Airport, with the overlap happening around Galway City, the most populous location in IWAK's catchment'*. Likewise, it notes that the catchment area of Kerry overlaps with that of Cork and Shannon Airports. A 2018 press article on welcoming the opening of the route from Knock airport to Cologne quotes Ryanair's Chief Commercial Officer as stating that *Knock Airport competes with both Shannon and Derry*. As noted in Question 2 above, flights have move from Shannon to Kerry indicating that the catchment area of the two are interlinked.

Concerns in relation to the impact of subsidising some airports and not others has been raised continuously including the 'Review of Air Services Supported by the Essential Air Services Programme' report noting that *'any regulatory regime extended to the regional airports will have to devise a formula which addresses the issues raised, specifically the terms of competition between subsidised and unsubsidised airports serving shared hinterlands'*. Furthermore, the Value for Money Review of Exchequer Expenditure on the Regional Airports Programme also noted the close proximity of Kerry Airport to both Shannon and Cork. This clearly indicates that non subsidised airports are being impacted by the current scheme.

### **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?**

The upcoming Regional Airports Programme must consider the overall aviation landscape holistically. Currently, some of the CapEx support being given to airports is increasing the capacity of airports without considering the spare capacity available. Given the size of Ireland, the State needs to consider how best to support the capacity that currently exists in the aviation landscape rather than funding capacity expansions that may not have sufficient demand, or which will displace

services from other airports. Given the spare capacity available in airports in the country, particularly at Shannon Airport, this approach does not seem to consider the environmental impact of promoting excess capacity.

### **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?**

Whilst recognising the value of PSO services for connectivity of very remote regions, significant improvement in the road transport infrastructure-nationally raises questions as to the necessity of PSO services in the long term. The 2010 Value for Money Review previously undertaken for the Department of Transport had suggested *'The Donegal-Dublin PSO service should be retained and the PSO services from Dublin to Kerry, Galway, Sligo, Knock and Derry should be ended. Donegal is relatively remote in Irish terms. The cost per passenger of subsidising PSO services is difficult to justify at the other airports having regard to improved public transport and/or road journey times to Dublin.* Separately, the An Bord Snip Nua report had recommended the cessation of PSO services.

It is clear that since these studies were undertaken significant improvements have taken place across the transport network with further proposed developments to add to this in due course. This would suggest that any further extension of PSO services needs to take into consideration these developments and assess whether extension of services is justified. Furthermore, it is worth noting that whilst the Spending Review 2019 notes that PSO cost per passenger has declined in the 2012-2018 period, a review of the 2010 study shows that the PSO cost per passenger over a longer period has increased significantly.

Separately, as noted above, PSO services can give rise to displacement effects from other airports. This is likely to be particularly relevant where PSO funded services are being used to transfer passengers to other flights. Any decision to continue to support PSO services where this could arise needs to be reviewed and addressed. Similar consideration should be given to the possibility for displacement from other modes, particularly rail, which also receives subsidies from the Exchequer.

Finally, in the event that PSO services are continued, a number of changes to the specification of PSO services could be put in place with a view to reducing costs to the Exchequer. A DKM study had previously suggested the dropping of the early morning "red eye" requirement on PSO tenders and the use of combined tenders. Similar initiatives should be looked at if PSO scheme is to continue beyond 2022.