An Integrated Irish Aviation Policy

Ireland, as an island tourism destination is very heavily dependent on access by air. 88% of Ireland's 6.5 million overseas visitors arrive here by air. The connectivity provided by aviation is the lifeblood of Irish tourism, with just over 2,100 flights per week on non-stop scheduled services connecting 208 city pairs.

Tourism benefits parts of the economy and regions of the country that other forms of economic activity leave largely untouched. Its future is bright, but that future is intrinsically linked to a progressive aviation policy which creates the conditions for Ireland to grow its international visitor numbers.

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ITIC Submission re. Aviation Policy Review

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1.   Introduction

1.1   Aviation & Tourism

Tourism is one of the largest and fastest growing economic sectors in the world, with international tourism expansion consistently outpacing global economic growth over the past 30 years. Aviation has been, and continues to be, a critical enabler of growth in international tourism.

Ireland, as an island tourism destination, is more dependent on access by air than most other European countries. Over the past 25 years developments in aviation have been the driver of considerable increases in tourism to Ireland. The liberalisation of the airline industry in Europe, leading to increased competition and a drop in real term cost of air travel, has contributed to incremental growth in tourist demand for Ireland. The mid 1990s saw the launch of low cost carrier access and new competition on cross-channel routes generating incremental demand from the British market, followed a decade later by opening of new routes from mainland Europe. More recently 'Open Skies' facilitated an expansion of trans-Atlantic services which resulted in rapid growth in tourism from North America. Most recently the launch of services to the Middle East has been instrumental in changing long-haul travel patterns as well as opening up new potential markets.

Ireland with a relatively small and finite home based demand for travel crucially depends on inbound demand from business and leisure travellers to sustain the network of air services to/from the country. A significant component of airline and airport receipts is attributable to inbound visitors. Irish carriers currently derive an estimated €700+ million income each year from inbound visitors.

The connectivity provided by aviation is a major asset for overseas tourism to Ireland with just over 2,100 flights per week, on non-stop scheduled services connecting 208 city pairs.

1.2   Economic significance of tourism

Tourism is a major part of the Irish economy:

- 6.5m overseas visitors in 2012, spending €2.9 billion in the country, plus an estimated €750m in fares to Irish carriers.
- Over 180,000 people are directly employed in tourism and hospitality enterprises, predominantly SMEs. A further 70,000 to 80,000 jobs are indirectly supported by tourism. Moreover, given the nature of its labour intensiveness, employment cannot be offshored.
- Overall tourism accounts for up to 3% of GDP.

Encouraging the development of the tourism sector is all the more important today given its important role in job creation, at a time when unemployment is running at close to 14%. Recent fiscal initiatives by Government have shown a direct employment benefit. The tourism sector has capacity to absorb further substantial growth.

However, the aviation based travel and tourism industry faces several key challenges in a very volatile trading environment. Cost competitiveness continues to be a major challenge for Ireland, with air travel particularly price sensitive in the leisure markets. A cohesive policy

addressing the challenges of the current and future trading environment is essential if the national goals of increasing export earnings and job creation are to be realised.

1.3   Policy integration

The travel and tourism policy framework is complex and has many stakeholders, including national and local government, policy makers, airlines, airports and other suppliers, industry associations, and the business and leisure traveller. In addition air transport requirements for tourism have important synergies with the needs of the export and FDI sectors.

Ideally aviation and tourism policy formulation should be developed in tandem. As can be demonstrated from past experience in Ireland separate sectorial policies have often led to a fundamental, and even conflicting, disconnect which resulted in constraints or diseconomies on the development of both tourism and air transport. It is hoped that the review of tourism policy, planned for later this year, and the aviation policy will not only complement each other but will be consistent and mutually reinforcing. To this end it is essential that the needs of tourism are given due weight in the formulation of aviation policy.

Aviation policy needs to address a number of challenges, not least improving competitiveness and achieving greater integration of economic, social and environmental objectives across the aviation and tourism sectors.

In addition to addressing these short term challenges, it is equally important that the aviation policy provides a longer term vision for the continued growth and development of Ireland's aviation industry over the next 20 years and thereby provide a framework for future tourism development.

1.4   Focus of Tourism's response

The Irish Tourist Industry Confederation (ITIC) – the umbrella organisation representing major public and private sector stakeholders in tourism - welcomes the opportunity to respond to the Minister's initiative in developing an integrated aviation policy.

Both the aviation and tourism industries face perhaps the most demanding set of challenges in their history. The aviation policy being developed will not only affect businesses directly engaged in air transportation but will impact on over 20,000 businesses which make up the country's hospitality and tourism sector.

ITIC in making this submission requests that the Government should give priority to these issues which would have the greatest impact for tourism and economic development namely:

- Airports
- Air services
- Regulation & Governance
- Sustainability

2. Airports

2.1 Dublin as key gateway

From a tourism perspective Dublin Airport is the dominant gateway providing the greatest range of air services and catering to the largest number of inbound tourists. The increasing concentration of capacity and demand at Dublin Airport is a logical strategic development and is expected to continue to provide the broadest range of viable year round connectivity to the greatest number of markets.

The connectivity provided at Dublin Airport is a major asset for tourism. An estimated 80% of short haul and 84% of long haul scheduled capacity operates to/from Dublin Airport (summer schedule 2013). (In the broader all-island context an estimated 61% of short haul and 82% of long haul scheduled capacity operates to/from Dublin Airport – summer 2013.) Dublin Airport is the top port of entry for overseas visitors irrespective of destination within Ireland. For example, arrivals through Dublin Airport accounted for almost 70% of bednights spent by overseas holidaymakers along the western seaboard in 2010.

Significantly improved road infrastructure and increasing ground transportation options now provide good connectivity with most locations within the island of Ireland. The scale and profile of O&D demand, together with carrier strategies, suggest that Dublin represents the best opportunity for the further development of viable and sustainable services to/from Ireland.

Recognition of concentration on Dublin as the principal gateway to Ireland demands that adequate resources are devoted to planning and investment to meet future demand needs together with competitive pricing and efficient management of airport services.

2.2 Cork & Shannon Airports

State owned airports at Cork and Shannon continue to serve important catchment areas and offer choice of services to inbound passengers.

Cork Airport, with just over 10% of short haul scheduled capacity to/from Ireland together with seasonal charter services, is an important gateway to the South of the country and its most popular tourism destinations of Cork & Kerry.

Shannon Airport continues to be an important gateway for transatlantic traffic, which has been boosted this year by new seasonal services. The reinstatement of year round transatlantic service by Aer Lingus is another encouraging development. 16% of overseas holiday visitors to the western seaboard arrived through Shannon Airport in 2010, making it the second most important gateway, after Dublin, for the western half of the country. Under new management the tourism industry is of the view that the airport can attract further services from key in-bound source markets.

2.3 Regional Airports

A lack of policy in the past led to the development of more than an optimum number of airports in Ireland relative to the size of the market for inbound and outbound air travel. The number of airports and their individual goals of securing international service led to a situation of inefficient competition, with marketing funds being spent in many instances on unsustainable airline services that were not demand led.

The recent reduction in the number of regional airports, while a loss to the local business and resident communities, is unlikely to have had any material impact on inbound tourism. Anecdotal evidence would suggest that the demand was primarily for outbound local traffic including traffic on PSO supported services. The large number of competing regional airports

from Derry to Cork serving overlapping catchment and destination areas has militated against the development of sustainable international air services to the Western seaboard.

The aggregate capacity on services to/from Regional airports accounts for 8% of cross-channel and 3% of mainland Europe routes to/from Ireland. The regional airports at Kerry and Knock continue to provide convenient access for tourism to the western seaboard, with the latter airport currently providing the larger range of services and airline choice.

2.4 Proposals for consideration

2.4.1 Airport ownership

State ownership of essential aviation infrastructure is recognised and has been justified on the basis of aviation's important role as an engine of economic growth.

While airport operations in several developed countries have moved from the state to the private sector, the case for such a move in Ireland should be only be considered if the option provides greater efficiency and an improved ability to invest in future development of the infrastructure. At present there is no compelling case that a sale of state owned airport infrastructure at Dublin, Cork or Shannon would necessarily improve the quality of management of the resources or the level of investment in further development.

The model of competing terminals, as has been suggested for Dublin Airport in the past, has not been proven as a viable business model in other countries and would appear to run the risk of creating uncertainty and other inefficiencies.

Government policy of a commitment to the future development of airport infrastructure at the key gateways would appear to offer the best option, particularly in the current uncertain economic environment, and would provide the greater level of certainly to the private sector in developing growth strategies for the future.

2.4.3 Planning for future demand

Ensuring adequate capacity - airport runways and terminals - to provide for future growth in air travel must be a key consideration of any aviation policy. It is proposed that the new aviation policy provide a clear statement to govern future airport development which would in turn require to be reflected in planning and regulatory decisions.

While current terminal capacity is adequate for the short term, there is a need to ensure that Dublin Airport, as the major gateway, can provide the necessary runway infrastructure to facilitate peak hour operational demand and develop long haul inter-continental services in the future, particularly to emerging markets in Asia. Given the lead time required to provide additional runway capacity at Dublin to cope with expected growth a number of key decision points need to be defined to allow for planning and construction schedules which can be delivered in advance of demand.

2.4.4 Regional Airports

The economic criteria for sustainable network of airports on the island must be a balance of economic benefit of investment in regional airports versus other transport infrastructure.

The Government should consider the EU's Draft Guidelines on State Aid to Airports and Airlines (published July 03, 2013), and due to come into effect in 2014, to ensure that the proposals do not conflict with or restrict Ireland's aviation policy. Critical considerations include permitted state support for airport infrastructure and route development incentive schemes.

3.   Air Services

3.1.   Connectivity drives tourism growth

Connectivity – the range of origin points with air services to Ireland as well as the frequency of service and the number of onward connections available - is a critically important factor for the tourism industry. Developments in the aviation industry over recent decades have led to an improvement in this connectivity. Visitors to Ireland have benefitted from reductions in travel time, increased availability and frequency of services, improved scheduling, and better overall convenience. In addition, regulatory liberalisation has led not only to improvements in connectivity but also a drop in the cost of air travel. Continued development of a strongly performing air services access network to/from Ireland is necessary to sustain and grow a profitable tourism sector.

Currently an estimated 88% of visitors arrive by air – with over 90% of holiday/leisure visitors choosing air travel. The popularity of air travel for inbound visitors has been continuously growing from a point 20 years ago when visitors were arriving in equal numbers by air and by sea. The trend towards increasing use of air services amongst visitors to the country is expected to continue based on a widening of the source market base, demand demographics and leisure travel patterns, including continued growth in short stay leisure breaks, and convenience.

Price competitiveness is an increasingly important variable in international tourism. Ireland suffered a significant downturn over the past decade due in part to becoming more expensive than competitor destinations during the boom Celtic Tiger years. Air fares, ticket taxes and airport charges are an important component of the visitor outlay and have been shown to impact demand.

3.2   Range of air services for inbound tourism

Ireland is facing an increasingly competitive environment in each of its main source markets. Availability of competitive air services can greatly enhance Ireland's tourism prospects in each of its source markets. Direct routes are more convenient, and generally less expensive, for the consumer thereby providing the destination with a competitive advantage. The absence of direct air service is a particular barrier to penetrating new emerging source markets, although this can be ameliorated by good connectivity through major hubs on same carrier or code share arrangements.

Recent international research shows that destinations are increasingly substitutable for one another with price and value-for-money considerations weighing heavily on the purchase decision.

Currently the British market is well served with cross-channel air services operating from each Irish airport, providing connectivity from a total of 25 airports in Britain. Carriers have a good record of responding to market needs in terms of frequency and capacity across the range of O&D market segments.

Capacity and frequency on routes to/from mainland Europe provide good access from the principal source markets for inbound tourism. However, growth in service in the recent past has focused more on catering to outbound demand to sun and ski resorts. An estimated half of the capacity on mainland European routes caters almost exclusively to outbound demand from Ireland.

As a result of history and geography Ireland enjoys a good position in transatlantic services from the US. This summer will see a 25% increase in the number of departures per week during the peak summer months –a total of 133 departures per week. This is way above the level of service to points in Europe, outside of the key hub airports, and provides Ireland with a good competitive advantage in the market.

Preliminary indications suggest that transatlantic capacity could increase by a further 9% for summer 2014.

Table: Summer Scheduled air service capacity (o/w seats per week)

	2012	2013*	± % change
Britain	**136,361**	**133,804**	**-2%**
Mainland Europe			
Spain	41,656	47,276	+13%
France	23,873	22,988	-4%
Germany	19,394	19,938	+3%
Italy	14,286	14,219	NC
Netherlands	9,849	10,416	+6%
Poland	11,347	10,902	-4%
Nordics	6,923	8,144	+18%
Other Europe	35,345	37,781	+7%
Total	**162,673**	**171,664**	**+6%**
Long Haul Air Services			
USA	24,592	31,115	+27%
Canada	2,974	3,070	+3%
Transatlantic total	**28,749**	**35,368**	**+23%**
Middle East	**5,098**	**6,022**	**+18%**

Source: TTC
Note:* max. capacity on peak season

3.3 Outlook for future demand

Despite the uncertain global economic picture, prospects for further travel and tourism growth continue to be positive, although the sources and pattern of growth are changing. Global demand passed the 1 billion international traveller mark in 2012, according to the World Tourism Organization (UNWTO). Tourism is expected to continue to grow over the next 20 years at approximately 4% per annum, with UNWTO forecasting international tourism to reach 1.8 billion by 2030. Growth in demand for travel from developed markets in Europe and North America, which continue to be the largest sources markets, is expected to be at a lower rate than the demand from new emerging economies such as China and other Asian source markets, Brazil and India. These new source markets are forecast to grow more rapidly in terms of volume and expenditure on international travel, although in the first instance most of that travel will be intra-regional.

While recovery of the level of visits from Britain, Ireland's largest source market for visitors, remains a high priority, the better prospects for sustainable growth are from markets beyond Britain. More rapid growth is forecast from selected mainland European markets, North

America and new emerging markets in Asia and elsewhere. Intra-European travel will continue to grow, although at a slower pace than in the past, but Ireland with such a small market share has the opportunity of capturing more ambitious growth. Leisure/holiday visitors from mainland Europe already outnumber British visitors in this category. The focus for growth in tourism will be on selected cities where research shows Ireland is currently under performing. The points of departure for more frequency or new air services are likely to include cities in Germany and the Nordic countries. Access – connecting and direct - from the new emerging markets, together with a more liberal and affordable visa entry regime, will be key to enabling Ireland to capture a share of the fastest growth markets for international travel. Facilitating developments in aviation will have very major implications for leisure and business tourism markets. Growth in tourism will require increased capacity, new routes and improved connectivity options from markets not currently served by direct access.

Based on short term targets being set out by the tourism agencies (in the absence of any longer term vision and projections), a minimum average annual capacity increase of 5% would be required to realise Ireland's potential in inbound tourism. The focus of this growth has to be on increased lift and some new routes connecting selected European cities to Ireland, including seasonal services to airports outside Dublin and Cork.

3.4   Maintaining a competitive airline environment

The need to maintain a competitive Irish airline environment is paramount in the context of increasing consolidation within the industry. In a volatile airline business environment, policy needs to minimise risk. Mergers and acquisitions could result in a marginalisation of Ireland.

The last 10 years have also seen a growing dependency on Irish carriers on short haul routes. Irish carriers combined presently account for 90% of capacity on short haul routes, compared to 73% 10 years ago. Over the period Ireland has become more dependent on Irish carriers as several flag carriers and LCCs withdrew from the market. Continued competition in the airline sector is important in generating the dynamic to grow and develop new services.

In contrast, access on long haul routes has become more concentrated on non-Irish carriers. Currently Ireland is 100% dependent on foreign carriers on routes to/from the Middle East and Canada, while summer capacity on transatlantic routes is expected to be almost equally split between Irish and non Irish carriers in 2014.

A key policy issue is the State's shareholding in Aer Lingus and the future ownership of the airline. Securing the continuance of a competitive environment while reviewing the future of their equity stake in the airline as the provider of the broadest range of connectivity, is vital to Irish tourism interests.

3.5   Proposals for consideration

3.5.1   Ireland needs to maintain a base of competing airlines

As an island destination ensuring the continuation of at least two large Irish based airlines providing a broad range of services is essential for the future of tourism. The loss of home based carriers of size would be detrimental to the interests of tourism and would significantly reduce the connectivity with a contraction in the range of direct services and/or lead to uncompetitive pricing. Securing the continuation of the current competitive environment is in the best interest of Ireland's economy and its inbound tourism industry.

3.5.2 Pro-active sustainable route development policies

Ireland needs to have a clear pro-active approach to route development which coordinates all public sector stakeholders. Considerable funding and incentives are currently expended by a range of stakeholders - state owned airports, tourism agencies, local authorities and other state agencies and funding bodies - for route development. A more joined-up approach by the state sector in strategically targeting and supporting new route development and/or airline market entry is required. Support should be based on more robust economic benefit analysis. This would maximise effectiveness and efficiency in the use of resources and ensure that public purse supports are directed to those new route opportunities with the better prospects of sustainability and minimise any negative diversionary impact on existing services. There have been instances in recent years of fragmentation and opportunistic approaches that have resulted in the dissipation of resources and diversion of traffic without any overall increase in arrivals to the country.

3.5.3 Prioritisation of new routes

A strategic approach to the identification through research and economic benefit analyses of new route opportunities, based on the potential composition, volume and value of demand, is needed. This information shared with stakeholders would better inform decisions on financial incentives and other supports provided to airlines.

A particular focus on improving connectivity with the new emerging tourism source markets is called for - by means of new direct service(s) and/or improved code-share arrangements. It is proposed that part, or all, of the income from the Air Travel Tax could be allocated to securing this objective.

3.5.4 Develop Dublin as a hub

The development of Dublin as a hub airport should be encouraged. The success to-date of Aer Lingus' strategy of marketing connecting traffic on its transatlantic services together with its code share arrangements supports the viability and broadening of the airline's operations which in turn benefits tourism. This is especially true for ensuring the sustainability of recently announced new routes for 2014.

3.5.5 5th Freedom rights

The advantages to be gained by granting 5th freedom rights to foreign carriers may present a welcome mechanism to expand the range and network of routes to/from Ireland. However, each opportunity needs to be carefully evaluated as to its impact on existing carriers and routes, in order to ensure that no unfair competitive advantage is created in the market.

4. Regulation, Governance & Taxation

4.1 Regulatory competence

The European Union has competence in relation to air transport and has been responsible for a significant body of legislation and regulation in recent years governing the provision of air services within the European Union and external trading arrangements with third countries. Irish tourism, as already stated, has been a beneficiary of the liberalisation of air service agreements and regulations governing air transport.

The principal function of the Commission for Aviation Regulation, established under statute in Ireland in 2001 to comply with European directives, is to regulate DAA's airport charges at Dublin and the IAA's aviation terminal services charges at Dublin, Cork and Shannon. The Commission has set price-caps on the relevant fees and charges at Dublin Airport to discharge this responsibility.

4.2 Taxation

The Air Travel Tax, introduced in 2009, has been controversial and has added to the cost of travel. While several European countries do not have a travel tax, the incidence of taxation on travel has been on the increase. The current €3 per passenger tax is unlikely to represent a deterrent to tourism demand, although any increase would negatively impact the competitiveness of Irish tourism. The proceeds from the travel tax should be ring-fenced for reinvestment in tourism destination marketing of Ireland, including incentives for selected new long haul air services.

4.3 Proposals for consideration

4.3.1 Aviation Regulator - Airport Pricing

Recognising the EU requirement for pricing oversight at Dublin Airport the current arrangement and practice could be improved so as to be less time consuming and costly while providing more stable conditions for the airport operator and its airline customers.

Aspects of the current regulatory process which might be improved include:

- ensuring that Aviation Regulator and the assessment process adequately encourage both investment and efficient operations, while balancing the needs of current operations and future development; and
- a review of the current appeals process to provide for a fixed time limit in order to remove periods of uncertainty, and to ensure that it functions effectively and efficiently.

4.3.2 Security and Border Control

Increased emphasis on international security and border control, although welcome and necessary, has resulted in more inconvenience for travellers and longer dwell times at airports.

Aviation policy should aim to secure an improvement in the process and cost of securing an entry visa to Ireland for short stay visitors from new emerging markets. This would serve the objective of attracting more visitors from new markets and opening up new air services from selected long haul markets in the Asia/Pacific region. The retention of the current Visa Waiver Programme (due to end October 2016) for short stay visits from selected countries already in

possession of a visa for entry to the UK is advocated, as is reciprocity of the scheme on the part of the UK. A tourist entry visa to the common travel area (UK and Ireland) would be more beneficial. This would reduce the competitive disadvantage of Ireland being outside of the Schengen area, and if administered by UK and Irish diplomatic missions in emerging markets on each other's behalf, would increase the market reach and convenience for visits to Ireland.

The policy should also address standards for the security processing of passengers at Irish airports to reduce the time and inconvenience involved.

4.3.3   US Border facilitation

The US Customs and Border Protection (CBP) service in operation at Dublin & Shannon airports provides Ireland and the airlines serving US routes with a unique competitive advantage. The Government should ensure that the provision of the service is at a level adequate to meet the volume of travellers and airline schedules in order to preserve this competitive advantage.

5.   Sustainability

5.1   Ensuring that aviation growth is environmentally sustainable

While it is estimated that aviation contributes less than 3% of global greenhouse gas emissions, the industry has attracted much attention on the environmental impacts of a continuously increasing number of flights. Climate change, emissions and noise are issues connected with the aviation sector.

Besides the global concerns associated with increasing airline activity, the image and appeals of Ireland as a tourist destination are firmly anchored in a clean natural environment. Therefore, the tourism sector is doubly concerned that the primary means of transportation to the country is not compromised by negative connotations.

Several initiatives at European Union level are aimed at ameliorating the impact of aviation, including the EU Emissions Trading Scheme, which means that net emissions from Ireland aviation are capped from January 2012, and the Single European Sky Performance Scheme. The latter, sets binding targets on Member States to deliver better air navigation services, leading to cheaper flights, less delays, and the saving of unnecessary costs for airlines and passengers. In addition, the environmental impact of air traffic will be reduced due to more efficient and shorter flight paths.

Aircraft and engine manufacturers are investing heavily in more fuel efficient and lower emission aircraft while significant progress is being made in the development of cost-efficient biofuels.

5.2   Proposals for consideration

5.2.1   Mitigating measures

Ireland should implement in full EU regulations and directives aimed at mitigating the impact of air travel on the environment. The EPA and the IAA should be encouraged and adequately resourced to continue to develop further measures to lessen adverse impacts and to enhance the appeal of Ireland's natural environmental qualities.

5.2.2   *Research & development*

Based on Ireland's global positioning as a provider of aviation services, consideration might be given to creating a centre of excellence in research and development aimed at improving operational efficiencies within aviation sector, including biofuels.

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