Limerick Chamber
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Assessment of aviation policy as a driver of economic development in the West and Mid West of Ireland

By Copenhagen Economics

Summary

COMMISSIONED BY LIMERICK CHAMBER
in association with Galway Chamber, Ennis Chamber and Shannon Chamber.

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Galway Chamber
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Ennis Chamber
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Context for Report

Limerick Chamber commissioned Copenhagen Economics to complete an independent assessment on aviation policy as an economic driver for the Mid-West and West of Ireland.

Limerick Chamber represents 450 members supporting 50,000 jobs in the region. The report was commissioned as a result of the concerns held by Limerick Chamber and its members about the risk to jobs and activity in the Mid West and West arising from:

- **Continued reduction in services and numbers in Shannon Airport;**
- **An impending Brexit;**
- **A lack of fairness in the State's Regional Airport's Programme; and**
- **The need for Regional Economic Development Policy to be linked to Aviation Policy and connectivity.**

Ennis, Galway and Shannon Chambers are supporting Limerick Chamber in this process. Each understands the importance of air connectivity to their members and the entire region. Collectively these four Chambers represent 1,358 members supporting 105,500 jobs.

The business community from across the Mid West and West has united to call with one voice for Government to study the Copenhagen Economics report and immediately action the recommendations. This document summarises key aspects of that report and our collective position on the key matters raised.

Significant regional disparity hidden in dramatic economic growth

Globalisation has been a defining characteristic of the Irish economy in the past two decades, evidenced through the increasing levels of cross border trade, labour and capital integration.

318,000 JOBS

were linked to Foreign Direct Investment (FDI) into Ireland in 2017

7%

an increase of 7% over 2012, with the majority in manufacturing and retail.

Since 2013, Ireland has enjoyed steady economic growth, and positioned itself as the fastest growing European economy. While the performance of the economy continues to exceed that of all its European neighbours, it has been subject to heightened levels of uncertainty in recent times. The dual threat of Brexit and trade wars has negatively impacted consumer and producer sentiment.

Furthermore, the fruits of the recovery have not been balanced across the country as these dramatic growth rates have hidden significant regional disparities. Dublin, and to a lesser extent the wider Eastern and Midland area, has recently witnessed an alarmingly overconcentration of population, homes and jobs.

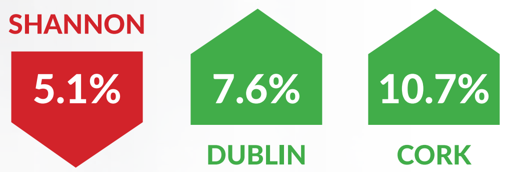
Since 2002 GDP per capita has grown by 8.3 per cent in Dublin, while other regions such as the Mid West and West have experienced economic growth rates of around 3 per cent or less.

Ireland's population is projected to increase by up to 1 million people by 2040. Much of this growth will be concentrated in Dublin and the wider Eastern area. The South-West, Mid West, West and Border regions are projected to account for a lower percentage share of the total population. If these projections become reality then there is a very real risk that regional disparities will worsen.

No EU hub for Shannon post-Brexit

As an island nation, aviation plays a fundamental role in connecting Ireland to the global economy. The ability of firms located in Ireland to do business internationally, and the attractiveness of Ireland for foreign firms, labour, and tourists depends on aviation. The dependency of economic growth in Ireland on aviation is highlighted by the NAP.

The grounding of the Boeing 737 Max aircraft prompted Norwegian airlines to cancel its services from all three state airports in June of this year. Shannon Airport had a disproportionately high number of routes served by the 737 and it has been estimated that this will result in a loss of 120,000 seats at Shannon this year.



Traffic at Shannon Airport fell by 5.1 per cent in Q1 2019, this is in contrast to growth of 7.6 and 10.7 per cent for Dublin and Cork Airports respectively.

At present, London Heathrow is the only hub airport accessible to the catchment area of Shannon. The loss of EU hub connectivity after Brexit is of foremost concern to stakeholders in the region. Air links to hubs in the US and Europe via London are critical for effective regional development and necessary if the Government's ambitions to drive 75 per cent of growth outside the capital by 2040 are to be realised.

Access to airports is particularly important for the high tech FDI and knowledge intensive firms that are the key drivers of economic development. The importance of Shannon Airport in this regard is also evidenced by the fact that over 40 per cent of FDI companies in the regions are located within its 90 minute catchment area. A recent survey of 16 FDI announcements in the Mid West in 2016, for example, found that each company involved cited Shannon Airport as a factor in their investment location decision.

If Shannon Airport was to establish a frequent business connection to Frankfurt Airport, involving two flights every weekday and one flight per weekend day, the higher connectivity would add a potential GDP contribution of EUR 412 million.

The report considers the potential impact to GDP for a number of EU hub airports with Frankfurt emerging as having the greatest contribution of EUR 412 million. The gains stem from a better access to the German market specifically, as well as the wider European markets. Besides this, Frankfurt Airport offers onward connectivity to markets in the Asia-Pacific and North America. From an Irish perspective, such a direct route secures access to the financial cluster in Frankfurt, which would enable Irish firms to seek synergies and utilise their key strengths in financial services. Strengthening and internationalising the financial clusters in the West and Mid West will be a way to ensure the sustainability of the route in the long-term.

Business Enterprise Development Policies not linked to Aviation Policy

There now exists a national political consensus in relation to the need for balanced regional development. The government's response to this consensus was the publication of Project Ireland 2040. The objective of Project Ireland 2040 is to promote the creation of approximately 50:50 distribution of growth between the Eastern and Midland region, and the Northern and Western, and Southern regions, with 75 per cent of the growth to be outside of Dublin and its suburbs.

The IDA has been a hugely significant driver of FDI, and this is evidenced by the fact that in 2018 almost 58 per cent of all IDA client-supported jobs were located outside Dublin. The IDA have publicly noted the challenges involved in convincing international investors to consider locations outside of Dublin and other larger urban areas. It is evident that FDI inflows are neither predictable nor inherently stable, and this calls for greater policy attention to the vulnerabilities that continue to plague the promotion of balanced regional growth.

One such vulnerability is National Aviation Policy (NAP), which in its current format does not support the goal of Project Ireland 2040. While national and regional policy (i.e. Project Ireland 2040 and the Regional Spatial and Economic Strategies) recognise the strategic importance of airport infrastructure for economic growth, no targets have been set for the development of airports outside of the Capital. Furthermore, no formal links exist at present between route development and FDI strategy despite a 'clustering' principle currently being put forward as the key theoretical foundation for future economic growth in the regions.

Given airports role as key economic drivers for their respective regions, Dublin Airport's market share is a huge impediment to balanced regional development. Taking annual passenger figures from 2012 – what Shannon commenced life as an independent entity with – as the baseline and using latest annual figures, for 2018, Shannon Airport increased its passenger numbers by over 460,000 in that period. Cork Airport during the same period increased its passenger numbers by just 50,000, although 2019 is proving a strong year for the airport. In that same period, however, Dublin Airport increased passenger numbers by 12.4million. Spreading just 20% of that growth proportionately across the to the regions would still leave Dublin with 10million additional passengers and the regions with an additional 2.5million, a boost that would deliver a far greater economic impact on those regions than on the Greater Dublin Area.

In the current market, Dublin Airport is currently mopping up 96% of all passenger growth into Ireland. In the context of the need for balanced regional development, as identified in Project Ireland 2040 this is hugely counterproductive. And with the threat of Brexit and its implications for the regions, measures must be taken to address this in favour of Shannon Airport and, indeed, other airports in the regions, namely Cork and Knock.

For too long aviation policy has only been viewed through the lens of cargo and tourism. More attention must be placed on the role of aviation in supporting the development of intellectual capital, which is crucial for modern economic development under globalisation and increased competitiveness.

Airport Capacity and Untapped Potential

Shannon Airport currently adds up to EUR 3.6 billion to Ireland's GDP and supports around 43,700 jobs. Around 1.7 million passengers travel through Shannon Airport on around 13,000 annual inbound and outbound flights. This implies that at peak hour capacity only 45 per cent of the capacity at the airport is utilised.

Recent developments in passenger numbers show that the capacity at Dublin Airport is increasingly under pressure, whereas the capacity at the remaining airports is increasingly underutilised. The underutilised capacity of Shannon Airport thus offers an untapped potential for the West and Mid West to deliver economic growth, reducing pressure on Dublin.

National Aviation Policy (NAP) supports a coordinated approach to delivering economic benefit for the country as a whole (i.e. sum of the whole is greater than its parts). However, a 2018 review of the future capacity needs at Ireland's State airports analysed capacity for each individual airport and not the airport network as a whole. Furthermore, there was no reference to the overarching goal of Project Ireland 2040.

The DAA is a commercial public enterprise and as such determines Dublin Airports capital expenditure programme. The delivery of this programme is however influenced by the Commission for Aviation's (CARs) maximum airport charge determination which is published every four years. The CAR should give consideration to the goals of Project Ireland 2040 when making price cap determinations for Dublin airport.

If the capacity at Shannon Airport can act as a release valve/buffer to Dublin Airport and be an integrated part of the Irish aviation policy, synergies will be beneficial to both Dublin and Shannon airports. The investment required to strengthen Dublin Airport's role as a European hub will be lower, and Shannon Airport will become more attractive both for airlines and passengers.

The CAR is also responsible for discharging Ireland's obligations in regard to European rules governing the allocation of slots at airports. Given capacity constraints at Dublin Airport it is vitally important that existing capacity elsewhere in the country is efficiently utilised. Airports need to be empowered to respond to supply and demand changes, and to be able to guide the use of their airports slots towards the economically optimal outcome (ACI 2019). In light of this there should be a regular review of the slot allocation process at Dublin airport to determine if any traffic could be diverted to less congested airports to free up slots for traffic that yields a higher economic payoff.

Going forward, the Irish Government needs to utilise existing infrastructure more optimally to deliver the goals of Project Ireland 2040. Initiatives to level capacity utilisation across airports in Ireland would be a step in this direction.

The dominance of Dublin Airport is not common in EU

Dublin Airport increasingly dominates the market for aviation services in Ireland, at the expense of regional development elsewhere in the country. Dublin Airport has increased its passenger share every year since 2005 and stood for 86 per cent of all passengers arriving to Ireland by air in 2018.

In contrast, Shannon Airport has seen its passenger share drop from 13 per cent in 2005 to 5 per cent in 2018. While 3.3 million passengers travelled through Shannon Airport in 2005, the passenger number was 1.7 million in 2018. Similarly, the market share of Cork Airport has dropped from 11 per cent in 2005 to 6.5 per cent in 2018.

Even in an international context, the increasing dominance of Dublin Airport at the expense of other Irish airports is striking.

Other small open economies, where a similar concentration in market shares has been seen, have implemented policy initiatives to counteract the dominance of the national airport and mitigate negative impacts on other airports.

Schiphol is the only national airport with a larger share of the total number of passengers than Dublin, and Dutch aviation policy has recently capped the number of aircraft movements through the national airport to alleviate bottlenecks in and around the airport. Ireland needs a strong Dublin Airport to continue to drive core, high value, connections into the nation's capital, however the under utilisation of regional airports and the resultant congestion in Dublin Airport and Dublin City area threatens national competitiveness. Government should fully utilise other state owned airports for the benefit of the country before investing in further expansion in Dublin.

There is no level playing field between state airports and private airports

Due to proximity, Dublin Airport tends to be the first choice for most passengers flying to Ireland with Dublin as their end destination, whereas all Irish airports to a large extent compete for the remaining passengers arriving to Ireland. With a 200 km radius, a 2006 report conducted by the UK Civil Aviation Authority concludes that the catchment areas of Shannon and Dublin airports are expected to overlap. Since then, infrastructure investments have brought down travel time and enhanced the potential for overlapping catchment areas between the two airports. The report also concludes that the connectivity between regions in Ireland is such that most of the population is well within 90 to 120 minutes of multiple airports, which indicate significant overlaps of catchment areas. These findings imply that Shannon Airport competes both against Dublin Airport and against other Irish airports. A recent study of catchment areas of Irish airports confirms that even at 90 minutes there is considerable overlap of the airport catchment areas. In light of the this, it is important that there is a level playing field for Irish airports competing for an increasingly lower share of passengers outside Dublin Airport.

The Department of Transport, Tourism and Sport provides funding to Ireland's privately owned regional airports (Donegal, Ireland West Airport Knock (IWAK), Kerry and Waterford) through a Regional Airports Programme. Both Shannon and Cork Airports are excluded from the programme despite satisfying EU conditions for capex support. This places these State airports at a disadvantage compared to other privately owned regional airports.

Recently, Shannon Airport has taken on debt of €14m to resurface its main runway whilst an upgrade of Hold Baggage Screening, which is mandated by EU border security regulation, will cost a similar amount. The costs associated with this investment will not generate any additional revenue and will undoubtedly limit the money available to the Airport for projects including the development of new strategic airline routes. The Regional Airports' Programme has allowed for similar projects in privately owned airports in Ireland to be funded up to in excess of 75%. The provision of funding is not being questioned – the absence of fairness is. This is a political decision with no EU or similar restriction.

Recommendations

Government of Ireland	• provide funding to assist Shannon Airport in securing EU hub connectivity. • review the National Aviation Policy in the context of Project Ireland 2040 and strengthen the role of airports as key strategic assets for balanced regional development.
Department of Transport, Tourism and Sport	• commission an updated capacity review study that analyses the capacity of the airport network as a whole and makes recommendations in line with Project Ireland 2040 goal of balanced regional development. • assess the costs and benefits of increasing the number of Irish airports eligible for state aid and compare them to alternative policy instruments to secure balanced regional growth. • examine the costs and benefits of implementing a national route development fund to support the delivery of strategic FDI routes in airports outside of the Capital.
Department of Business, Enterprise and Innovation	• more actively use aviation policy to achieve their ambition of balanced regional growth and put in place policies that will enhance the capacity for development (e.g. skills, office space, broadband speed, etc.).
Commission for Aviation Regulation	• give due regard to the goals of Project Ireland 2040 when making its maximum airport charge determination for Dublin Airport. • ensure that the independent slot coordinator takes existing airport capacity elsewhere in the country into account when allocating slots at Dublin Airport.
Tourism Ireland	• consider allocating a larger share of the funding to marketing airports outside Dublin. This could also be a funding mechanism for securing a European hub to mitigate the negative consequences of Brexit.
Shannon Airport	• ensure that their operational processes and infrastructure continue to be efficient. Furthermore, the airport should explore additional revenue opportunities in the area of cargo traffic.

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