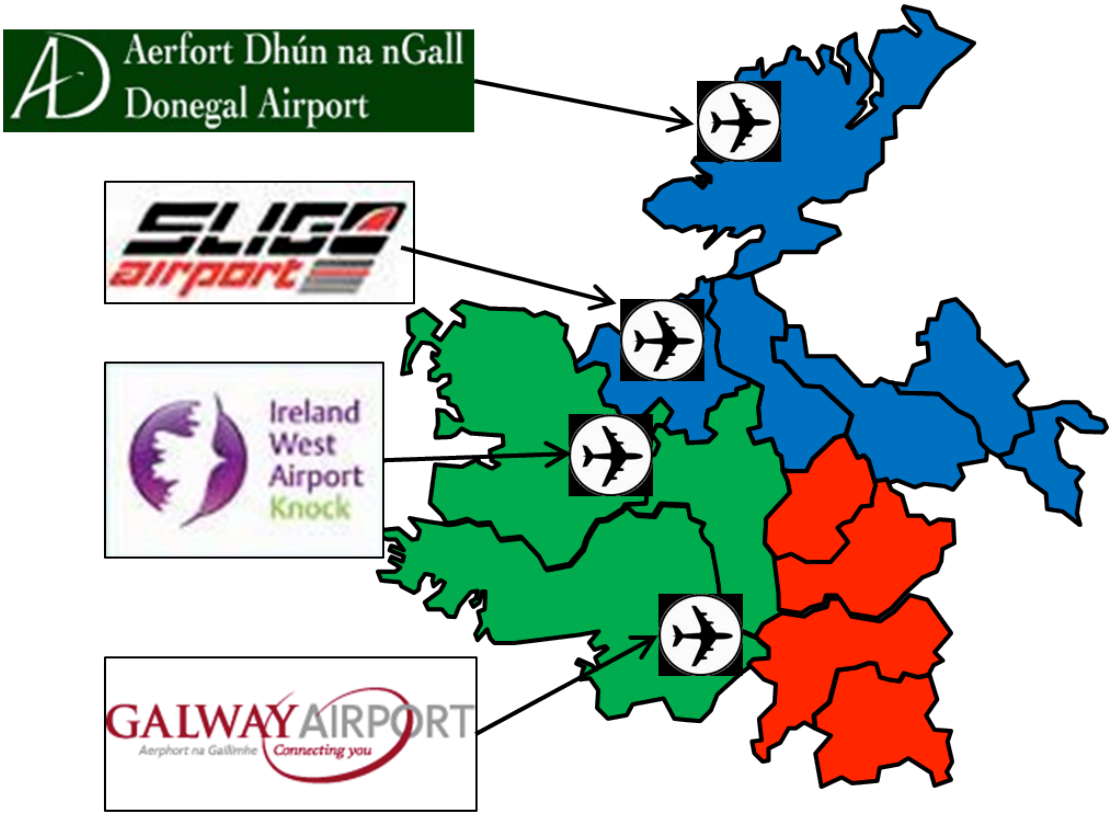
Border, Midland and Western Regional Assembly



Maximising the Economic Impact of Airports in the BMW Region

December 2009

Ireland's EU Structural Funds Programmes 2007 - 2013
Co-funded by the Irish Government and the European Union

EUROPEAN REGIONAL DEVELOPMENT FUND

Border, Midland & Western Regional Assembly
Investing in Your Future

Author
Adrian O'Donoghue*
Policy & Research Officer, BMW Regional Assembly

** The author wishes to acknowledge the contribution of Gerry Finn, Director and Kieran Moylan, Assistant Director of the BMW Regional Assembly for their input and advice during the development of this report.*

Table of Contents

Summary of Recommendations

To Government

Develop a National Aviation and Connectivity Strategy for the State and Regional Airports

Which Would:

1. **Retain and Develop PSOs**
2. **Readdress Current Policy Imbalances between State and Non-State Airports**
3. **Develop Transport Linkages to Airports in the BMW Region**
4. **Establish a Transatlantic Policy for the Western Economic Corridor**
5. **Pro-Actively Develop Airport Business Parks**
6. **Introduce a Route Development Fund**
7. **Meet NDP Commitments to Fund Capital Investments**

To Airports in the BMW Region

1. Develop and Implement an Economic and Tourism Plan for each Regional Airport Coordinated through an Airport-Led '*Airport Forum*'

2. Promote the Development of Air Service in the BMW Region

3. Establish a Regional Airports Policy Group

1. Introduction

Airports represent a strategic asset to a region and are making a considerable contribution to the local and regional economy in the Border, Midland and Western (BMW) Region. The success of any airport is linked with the economic well-being of the region it serves, while the degree of connectivity of a region forms the foundation for economic competitiveness. This research report examines the extent to which airports within the BMW Region are achieving their economic potential.

There are four airports operating in the BMW Region which carried over one million passengers in 2008; Donegal Airport, Galway Airport, Ireland West Airport Knock and Sligo Airport. This paper establishes the economic and policy context in which these airports currently operate and examines the barriers and opportunities for further development. It puts forward proposals to optimise the economic stimulus of airports by advancing their integration into and contribution to the regional economy. In doing so, it is hoped that any proposals for further investment will be advanced through a more supportive and coherent policy and institutional framework for airports in the BMW Region. These can be advanced by the BMW Regional Assembly and by Airport Authorities.

The policy proposals in this paper reflect the Government's commitment as set out in the National Development Plan 2007-2013 to the development of integrated multi-modal transport networks, the advancement of the Atlantic Gateway Corridor and real economic development in the BMW Region.

I would like to thank all those who participated and facilitated the development of this report, in particular I would to thank Anne Bonner (Donegal Airport), Joe Walsh (Galway Airport), Joe Gilmore and Enda Candon (Ireland West Knock Airport), and Joe Corcoran and Berni Chambers (Sligo Airport).

Gerry Finn,
Director, BMW Regional Assembly **December 2009**

2. Economic and Policy Context

2.1 The BMW Regional Assembly

The Border, Midland and Western (BMW) Regional Assembly was established in 1999 in order to give effect to the designation of the country into two regions, along with the Southern and Eastern Region, for EU Structural Funds purposes. The Regional Assembly's main function is to act as the Managing Authority for the BMW Regional Operational Programmes 2000-2006 and 2007-2013. In addition the Assembly engages in seeking to influence and contribute to the regional development policy agenda, while monitoring the expenditure and impact of the National Development Plan (NDP) 2007-2013 and EU funds in the Region.

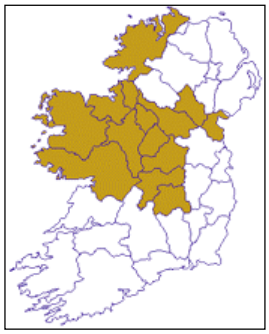


Figure 1: BMW Region

The Border, Midland and Western Region is comprised of thirteen counties (figure 1)[1], representing 47% of the landmass of Ireland and 27% of the population[2]. The Region is largely rural in nature and has a low population density of 35.5 inhabitants per square km. Its largest urban settlement is Galway City, with a population of 72,000 inhabitants[3].

2.2 Economic Context

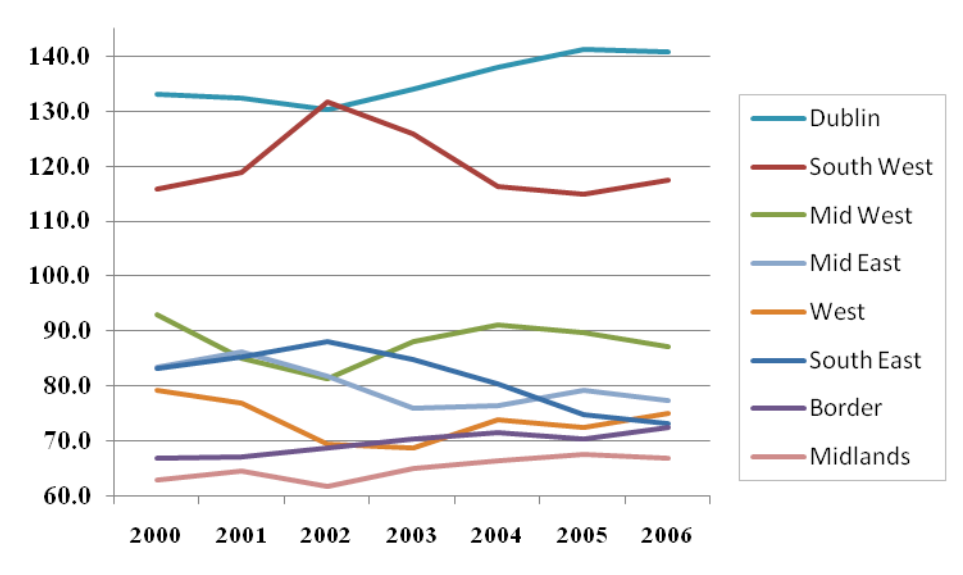
The BMW Region's economy is characterised by lower levels of income per head, higher levels of unemployment and employment in low-valued added sectors. This is demonstrated by the fact that 34.3%[4] of men in the BMW Region are either employed in agriculture, fishing, forestry or construction.

Over the period of the Celtic Tiger, the Region has struggled to gain a foothold in high-value added industries and as a consequence the three NUTS III[5] Regions in the BMW Region continue to contribute poorly to national output, as illustrated in figure 2. The Dublin and South West Regions have been the main drivers of the economy

[1] Border Region: Cavan, Donegal, Leitrim, Louth, Sligo and Monaghan.
Midland Region: Laois, Longford, Offaly and Westmeath.
Western Region: Galway, Mayo and Roscommon.
[2] BMW Region Population 2006: 1.2m, CSO, Census 2006.
[3] Ibid.
[4] Central Statistics Office (2008). Quarterly National Household Survey 2008 Q4.
[5] Border Region, Midland Region and Western Region.

over the period examined. This inability to develop a more diversified economic base, with more sustainable, innovative and knowledge-based industries leaves the BMW Region in a more vulnerable position during this period of economic recession. Figures for the 3rd quarter in 2009 found that unemployment in the BMW Region had reached 14.1% compared to 12.2% in the S&E Region[6]. In 2009 there has been a dramatic increase in the numbers signing onto the Live Register[7]. Current estimates based on figures from the Live Register indicate that unemployment has reached 12.5%[8] nationally.

Figure 2: GVA per person at Basic Prices by NUTS III Region 2000 -2006 (State = 100)



Source: CSO (2009) County Incomes and Regional GDP 2006

To be competitive in regional locations, enterprises must have access to infrastructural facilities that are at least on a par with competitors. It is recognised that inadequate transport infrastructure has been one of the major barriers restricting development in the BMW Region. This includes the provision of quality access to and within the Region via radial corridors, linking corridors and international access points. These underdeveloped linkages act as a barrier for inward investment, enterprise development, inbound tourism and overall quality of life for people in the Region.

[6] Central Statistics Office (2009). Quarterly National Household Survey. 2009 Quarter 3.
[7] The Live Register is not a measure of unemployment as it includes part-time workers, seasonal and casual workers entitled to the Jobseekers Allowance.
[8] Central Statistics Office (2009). Live Register: November 2009.

Over the period 2000-2006 IDA Ireland set a target of locating 50% of all new Greenfield investments in the BMW Region, assisted by higher levels of permissible EU state aid – this target was never fully achieved[9]. The IDA has recently more closely aligned its strategy for investment with the National Spatial Strategy (NSS) 2002-2020 and is focused on delivering investments through for designated Gateways and Hubs nationally. The relatively poor (but improving) quality of infrastructure within the BMW Region remains a key challenge when the IDA is 'selling' it as a destination to potential investors. Investors bring a wish-list to the table when it comes to choosing a destination for investment – the relatively poor quality of infrastructure in the Region which impacts on both its connectivity and accessibility continues to remain a key challenge for the development of the Region.

The FDI Investors Wish List[10]
1. **Human Resources**
2. **World Class Infrastructure:** a. **access, energy and telecoms;** b. **environment and waste;** c. **property solutions;** d. **business services;** e. **attractive lifestyle and amenities; and** f. **clusters of similar and supporting businesses.**
3. **The Right Attitude**

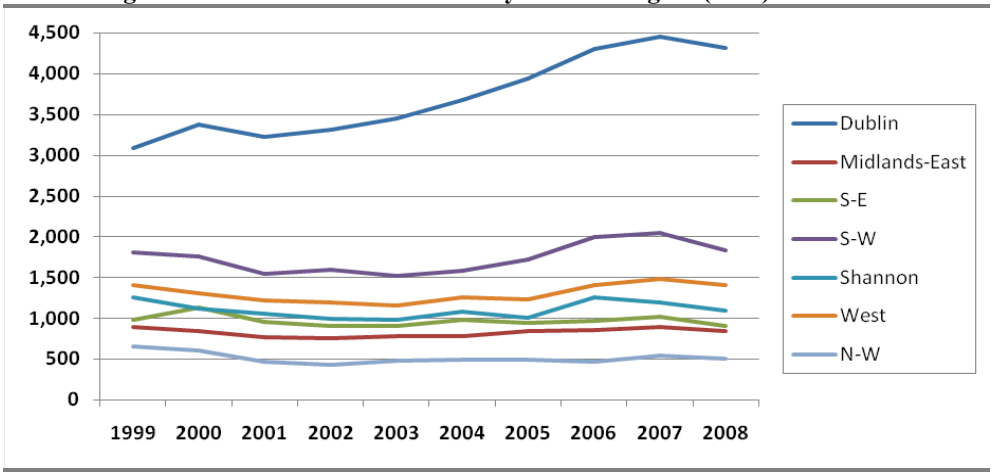
The widely expressed view is that that the importance of airports in the FDI toolkit of the BMW Region will grow, as the Region moves up the value chain to profit-rich activities which typically required higher levels of interaction with HQ personnel than is the case for lower-value activities such as manufacturing.

The provision of air access is also a prerequisite for developing a thriving international tourism sector. Figure 3 provides a breakdown of the regional share[11] of overseas tourists between 1999 and 2008. It is noteworthy that the strong economic performance of the Dublin and South West Regions identified in Figure 2 is also reflected in the tourism sector. The Dublin Region in particular made significant gains

[9] 36% of all new Greenfield jobs were created in the BMW Region between 2000-2006 see: http://historical-debates.oireachtas.ie/D/0647/D.0647.200802190200.html
[10] From "Winning Investment and Innovation in the BMW Region" a presentation to the BMW Regional Assembly's 2005 Annual Conference by Mary Buckley, Manager, Regional Development and Property Division, IDA Ireland.
[11] It should be noted that the tourism regions do not follow the NUTS definitions.

in terms of its share of overseas tourists which grew by almost 9% over the period analysed. This shift can be attributed to the growing popularity of short-break urban holidays and the significant expansion of low-cost air access to Dublin[12]. The increased volume of low-fare air services now available at the three State Airports is having an adverse spatial impact on tourism. This can only be re-balanced by expanding access to regionally located airports via new air services.

Figure 3: Total Overseas Tourists by Tourist Region (000s) 1999-2008



Source: Fáilte Ireland

It is recognised in the tourism industry that parts of the BMW Region has significantly undeveloped tourism product which includes a genuine Irish culture which is appealing to the US market, a diverse range of outdoor leisure activities and a high quality Christian and spiritual product. The opportunity for the continued channeling of market forces by Fáilte Ireland in conjunction with the development of airports in the Region can exploit these competitive advantages.

Prevailing adverse economic conditions in 2008 have contributed to Ireland's first decline (3%) in overseas visitors in the past seven years[13]. These trends are likely to continue until the global economy begins to recover, making this an even more challenging environment for the BMW Region to develop its market share of tourists.

[12] Irish Tourist Industry Confederation (2005). How Tourism in Ireland is Changing: Regional Distribution.
[13] Fáilte Ireland News Release 07.01.2009. 'Tourism Earnings Dip in Difficult Season'. http://www.failteireland.ie/About-Us/News-and-Events/Tourism-Earnings-Dip-in-Difficult-Season

2.3 Policy Context

> 'Balanced regional development means supporting the economic and social development of all regions in their efforts to achieve their full potential'[14].

In the National Development Plan (NDP) 2007-2013, the Government outlines its policy to deliver regional development through prioritised investment in the nine Gateways identified in the NSS. The NDP states that 'the key role of Regional Airports[15] is to complement that of the State Airports and to help promote regional development'[16], while the NSS asserts that 'Regional Airports should be protected – they are key resources in facilitating regional development'[17]. While a mandate has been established in terms of their regional developmental role of non-state airports, Government policy has not fully reflected this. This is further discussed in Chapter 4.

The European Union has stated that, 'Regional Airports are important to the development of an integrated European air transport network....Member States should endeavour to improve the accessibility of such airports by rail and road to allow them to act as reliever airports'[18]. While the EU has outlined a clear function for regional airports, the overall EU transport policy agenda is geared towards the development of an increased role for rail as an alternative to air transportation. Given Ireland's reliance on the aviation industry this presents future challenges that Irish aviation policy will have to address.

[14] National Development Plan 2007-2013. p.57.
[15] Regional Airports in this context refer to the four airports in the BMW Region as well as Kerry and Waterford Airport.
[16] Ibid p. 136.
[17] National Spatial Strategy 2002-2020, p. 135.
[18] European Commission (2007). An action plan for Airport Capacity, Efficiency and Safety in Europe, p.5. http://ec.europa.eu/transport/air_portal/airports/doc/2007_capacity_en.pdf

3. Airports Connectivity and Economic Benefits

3.1 Airports, Connectivity and Economic Benefits

> 'In a modern society **connectivity** is the basis for economic competitiveness, social and regional cohesion and cultural development. Consequently, not only do the economic and commercial needs of globalisation drive the growing demand for air transport, but the demand for air travel is also boosted by evolving societal and cultural needs'[19].

There can be no doubt that there is a strong correlation between the presence of an airport and economic success. The level and fluctuation in passenger numbers are also powerful predictors of the level of economic development, population growth, business and tourism activity in an area[20]. An extremely busy airport can generate a magnetic effect on the settlement of individual and service undertakings. A successful airport which meets the needs of the local, business and tourist industry can act as a catalyst for employment and a guarantee of the economic development of a region.

The presence of an airport in a region generates economic activity, stimulates economic growth and creates employment. An airport is a location factor for businesses and opens up regional markets to foreign customers, businesses and tourists. The financial and business services sectors and high valued added actors, have been identified as 'air intensive' industries i.e., businesses which make the greatest use of air transport and for whom accessibility to air services will have the strongest influence on location decisions[21]. The air transport industry also has important 'multiplier' impacts, which mean that its overall contribution to employment and GDP is much larger than its direct impact.

[19] European Commission (2007). An action plan for Airport Capacity, Efficiency and Safety in Europe, p.2. http://ec.europa.eu/transport/air_portal/airports/doc/2007_capacity_en.pdfm
[20] Green, Richard (2007). 'Airports and Economic Development', Real Estate Economics, Vol. 35, No. 1, pp. 91-112, Spring 2007.
[21] Bobirca , Ana and Cristureanu, Cristiana (2007). Airports Driving Economic and Tourism Development, Romanian Economic Journal, Vol. 10, No. 25, pages 31-44.

The airport itself generates direct and indirect employment, examples of these include[22]:

- Aircraft and operational-related activities such as air traffic control, refuelling, security and maintenance;
- Passenger-related activities such as check-in, border control, retail and catering, car-hire, taxis and public transportation;
- Freight-related activities such as loading and unloading; and
- Airport-related supports from the business services sector, e.g., call centres, IT support, accountancy, legal representation etc.

Airports also generate induced impacts i.e., the spending of those directly or indirectly employed in the air transport sector supports jobs in industries such as companies producing consumer goods and a range of service industries (e.g., restaurants, banks, conference centres, car rental and tourism activities etc).

Airports can also have catalytic effects for the economy which include:

- Attracting new business investment to the airport area;
- Retaining existing companies in the airport area or region and enhancing their expansion prospects;
- Promoting high value export success of companies located in the airport area by improving quick access to suppliers and customers;
- Enhancing the competitiveness of time-critical manufacturers and distributors;
- Attracting tourists and business travellers to a region and therefore generating employment and business revenues in local and regional establishments;
- Increasing the number of distant markets;
- Increasing land and commercial property values in the airport area; and
- Not only facilitating trade, but creating trade and enhancing competitiveness.

Airports are not only essential infrastructure assets which support regional, social and economic growth, moreover, they are commercial entities in their own right, capable

[22] Netherlands Institute for Spatial Research (2005). Regional Airports Study – Summary. p. 2
& Air Transport Action Group. 2008. The Economic and Social Benefits of Air Transport 2008.

of generating returns on investment to the benefit of their shareholders, other stakeholders and to society as a whole.

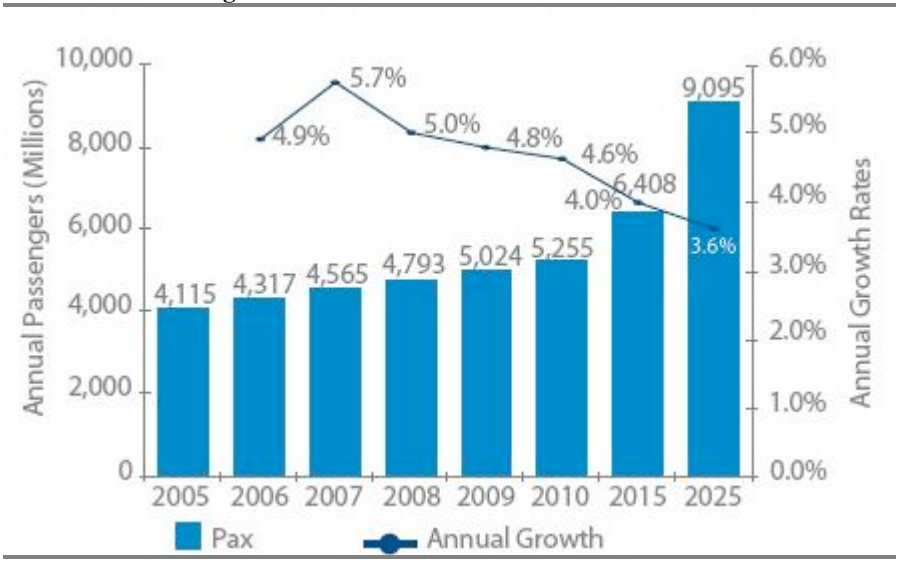
3.2 The Evolution of the Aviation Industry

The aviation industry has experienced dramatic changes in recent years and the future development and growth of the industry will depend largely on how each airport responds to the new challenges and the extent to which emerging opportunities, such as 'Open Skies', can be exploited. Worldwide air passenger numbers have continuously grown during the 1980s and 1990s and in response the supply of air transport services has increased. The globalisation of the world economy has also been a key driver of air traffic growth. The cross-investment between European countries, as well as to and from the USA, Far East and the rest of the world is increasingly a feature of modern business, with the mobility of labour an additional growth factor.

Before the economic downturn began to take hold of the global economy in the second half of 2008, it was forecast that the number of air travellers would double in the next 20 years[23] rising to more than 9 billion (see figure 4) along with a tripling of air freight over the same period. Even though the global economic recession will have a negative effect on growth, it is generally accepted that the underlying growth trend in aviation will be re-established in the medium term. The ability of airports to match demand will become the constraining factor on air transportation, and as air access acts as a 'motor' for economic growth, it is important that airports in Ireland do not risk undermining the overall competitiveness of the Irish economy. For the continued development of the BMW Region it is therefore vital that airports within the region are strategically placed to attract and manage this additional capacity.

[23] Airport Council International (2007). Global Traffic Forecast 2006-2025.

Figure 4: **Global Traffic Forecast 2005-2025**



Source: Airports Council International (2007)

3.3 Role of Low Cost and Regional Airlines

Low cost carriers, which generally fly from airports based in regional locations and account for 30% of all scheduled intra-European point-to-point passengers[24], have played a significant role in developing tourism in the EU in recent years due to their ability to open up new markets, 'damp down seasonality' and stimulate new traffic rather that diverting existing traffic[25]. Low cost carriers have opened up regions, created and stimulated tourist markets, provided a greater level of mobility and flexibility of labour markets, while also contributing to an enhanced quality of life for these passengers. Low cost carriers therefore have a particularly important role to play in driving regional connectivity across Europe and in supporting employment growth and competitiveness.

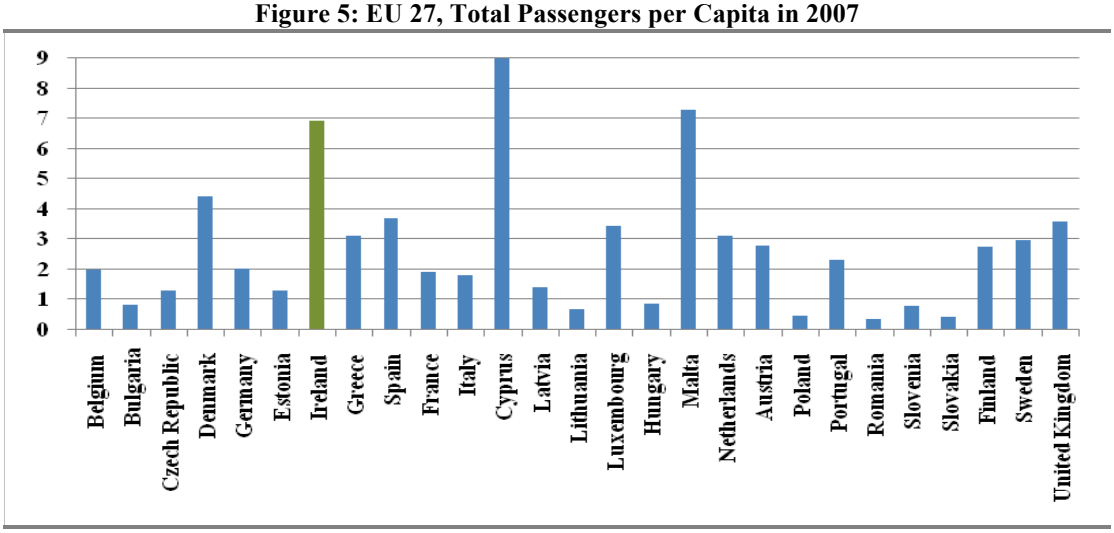
Regional carriers also continue to play a vital role in regional development with major carriers becoming more dependent upon regional feeds through the development of interline and codesharing agreements. These widen the range of destinations available from regions to include long-haul destinations while also placing regions on a global platform as a destination for inbound travel from all over the world.

[24] York Aviation. Social Benefits of Low Fares Airlines in Europe. November 2007.
[25] Ibid.

3.4 The Irish Aviation Sector and Recent Trends

Ireland's island status, geographic location and standing as a small open economy leads to a heavy reliance on air transport. Ireland is placed third out of the EU 27 in terms of total air passengers per capita, with only the smaller island nations of Cyprus and Malta demonstrating a greater reliance on the provision of air transport, as illustrated in figure 5.

Figure 5: EU 27, Total Passengers per Capita in 2007



Source: Author's calculations: Eurostat Transport Statistics 2007 & Eurostat Population Figures

The Republic of Ireland is served by nine airports. The network is comprised of Dublin, Cork and Shannon Airports which are publicly owned and run by the Dublin Aviation Authority (DAA)[26] as well as six non-DAA owned airports; Donegal, Galway, Kerry, IWA Knock, Sligo and Waterford.

Ireland has experienced rapid growth in air transport in recent years, this is demonstrated by the rise in passenger numbers in the period between 2003 and 2008 documented in Table 1. This reflects high levels of demand, driven by increased business interactions, increased disposable income, the growth in tourism along with the availability of low-fare air services to and from an increasing number of European and North American locations[27].

[26] It is stated Government policy to separate Cork and Shannon airport from the Dublin Airport Authority. Minister for Transport Noel Dempsey TD announced on 22.12.08 that this move will now be deferred until 2011 due to prevailing economic uncertainties.
http://www.transport.ie/pressRelease.aspx?Id=38
[27] Ibid p.51.

Table 1: Passenger Numbers 2003-2008 (000s)

Airport	2003	2004	2005	2006	2007	2008	% Change 2003-08
Dublin[28]	15,856	17,138	18,450	21,196	23,287	23,500	48.2%
Cork	2,182	2,254	2,730	3,011	3,180	3,250	48.9%
Shannon	2,401	2,395	3,302	3,639	3,621	3,100	29.1%
IWA, Knock	247	373	530	621	561	628	154.3%
Kerry	286	376	384	392	388	420	46.9%
Galway	137	225	253	249	309	267	93.9%
Waterford	35	61	74	83	118	144	312.4%
Donegal	38	43	48	57	61	65	69.5%
Sligo	31	41	39	34	44	42	35.5%
Total	**21,213**	**22,906**	**25,810**	**29,282**	**31,569**	**31,415**	**48.1%**

Source: DAA Annual Report 2007, Department of Transport & Airport Representatives

As illustrated by these figures Dublin Airport accounts for almost 75% of Ireland's air travel activity. Dublin airport functions as a natural spatial monopoly[29], this is as a consequence of the significantly higher population density in its hinterlands, its large catchment area and due to the fact that there is no airport within close vicinity with which it has to compete.

It is worth noting that in 2008, Cork overtook Shannon as Ireland's 2nd largest airport. As previously noted, the strong economic performance of a region, in this case the South West, has correlated with a growth in demand for access to and from the second fastest developing region in the country.

3.4.1 City of Derry Airport

The role of the City of Derry Airport in the development of the BMW Region is also important as an air access point to the North West and in the context of the Letterkenny/Derry linked Gateway as identified in the National Spatial Strategy. Last year the Airport reported 438,996 passengers, a twofold increase in passenger numbers since 2003[30].

[28] Dublin Airport was the 13th largest Airport in the EU 27 in 2007 in terms of total passengers handled. Eurostat (2009). 'Air Passenger Transport up 7% in 2007', News Release 13.01.2009 http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PRERELL_YEAR_2009/PGE_CAT_PREREL_YEAR_2009_MONTH_01/7-13012009-EN-AP.PDF

[29] Reynolds-Feighan, Aisling (2003). A Review of Irish Airports Policy. Irish Banking Review, Spring 2003, pages p.49.

[30] United Kingdom Civil Aviation Authority.

3.5 Understanding the Dynamics of Airports in the BMW Region

The dynamics of any regional airport system is based on the interaction of airline services with the distribution of demand for these services across a region. It remains important however to distinguish between the level of demand and passenger activity levels. On the one hand a region's geography, population, economy and resources determine the demand for air travel, while on the other hand the availability of airline services and level of fares determine how much of this demand is actually realised in passenger activity. Only by gaining a greater understanding of both the nature of passenger needs and the business strategies of airlines can air services be developed in the BMW Region[31].

It is therefore important to distinguish between the different markets current served by the region's four airports (See Appendix 1 for more details on each airport).

- Donegal Airport located in Carrickfinn, County Donegal some 45 minutes from Letterkenny can be described as the most peripheral of the four airports, about 4.5 hours by road to Dublin and the county is not currently served by rail. The airport provides services to Dublin and Prestwick in Scotland as well the only in-bound summer charter service to the West of Ireland from Rotterdam (see 4.5.1). The airport also has high level of helicopter activity to off-shore oil and gas fields.
- Galway Airport located 6km from Galway City functions primary as a business airport supporting and facilitating the development activities of one of the strongest Gateway cities in Ireland[32]. With four return flights a day to Dublin it permits strong economic linkages to the capital, while also utilising Dublin Airport as a 'hub' for enhanced connectivity. Services are provided to Edinburgh, London Luton and Manchester. Summer destinations include; Bordeaux, Lorient, Faro and Malaga. It also acts as an alternate destination for Shannon sea and rescue.
- Ireland West Airport, Knock located close to Charlestown in County Mayo provides flights to nine destinations in the UK, primarily serving visiting friends and relatives as well as leisure travellers. Its runway is capable of handling transatlantic services as demonstrated by the provision of services to Boston and

[31] For further discussion on the nature please refer to recommendations in Chapter 7.
[32] See www.bmwassembly.ie for the 2008 Gateway Development Index for further information on the levels of development of Ireland's Gateways.

New York during 2007. Services to the UK include flights to Birmingham, Bristol, East Midlands, Glasgow, Liverpool, London Gatwick, London Luton, London Stansted and Manchester. In the summer months a wide range of charter flights are provided to Bulgaria, Croatia, Spain and Switzerland, including flights operated by Ryanair to Alicante in Spain. A winter ski charter is also provided to Salzburg in Austria as is a daily return service to Dublin Airport.

- Sligo Airport currently provides flights to and from Dublin Airport which facilitates both business and leisure linkages with Dublin Airport as well as further destinations served by the capital's airport. Expansion of the runway (currently pending) will enable the airport to expand its services and enable to further development linkages to the strategically important Gateway city of Sligo. It is also the base for the North West Air/Sea Rescue which has 26 employees.

3.6 Growth of Airports in the BMW Region

The growth experienced by airports in the BMW Region has also been significant and the potential for these airports to further stimulate the regional economy could be substantial if barriers to development could be overcome and replaced by a more flexible, strategic and cooperative approach. In 2008, the four airports in the BMW Region surpassed 1 million (1.02m) passengers for the first time, a more than doubling (124.9%) in numbers since 2003. This represents a 3.3% share of total passengers from Irish airports in 2008, highlighting in particular the current focus on Dublin Airport for all air traffic. Since 2003 this share has risen by 1.2 percentage points and indicates a slight shift towards a greater usage of BMW Region's airports. As these Airports offer an increased range of routes and a enhanced passenger-friendly experience, more passengers are choosing to avail of air services from their local airport rather than flying the same route from one of the DAA Airports.

From a regional development perspective, it is therefore important that these positive trends are sustained. This can be achieved through the development of more diverse routes, increased accessibility, and greater attractiveness of these airports as real alternatives to the three State Airports. Currently figures are not collected by the DAA in relation to the domestic county origin of passengers using DAA Airports[33]. This

[33] The DAA currently collects only modal transport choices to and from Dublin Airport.

information would provide a clear picture of aviation use and whether the current supply fits the both the visitor and domestic demand profile. This should be further investigated.

3.7 Capturing Future Growth

As previously discussed it is expected that air traffic growth norms will eventually return and that the volume of air traffic to and from Ireland will continue to grow once the global economy emerges from its recessionary cycle and banking crisis. Dublin Airport is currently engaged in a €1.2bn[34], ten-year development programme which will include the completion of a second terminal building capable of handling 15m passengers, bringing the capacity of the Airport to 35m passengers a year. While Dublin Airport invests and plans for the future it is also critical that the airports in the BMW Region are correctly positioned to capture and absorb additional capacity. The ability to unlock existing undeveloped capacity at regional level will play a key role in the development and sustainability of the regional economy.

3.7.1 Case Study: Direct Inbound Tourism Rotterdam – Donegal Airport

During the summer of 2008, Donegal Airport demonstrated what can be achieved through a concerted partnership approach. A Rotterdam to Donegal Airport charter service was established between May and September lasting 20 weeks, with flights every Saturday (holiday packages ranging from 7-21 days). The initiative was made possible using a partnership approach on the basis of 3 partners each contributing €40,000 over 3 years to make a total fund of €120,000:

1. Private Enterprise
    a) Buro Britain;
    b) SDCS (Saoire den Chead Scoth Teo);
    c) The tourism trade of Donegal;
    d) Donegal Airport;
2. Fáilte Ireland; and
3. Tourism Ireland (TI) (it should be noted that TI's contribution was more indirect as any promotion of this charter came out of TI's budget in the Netherlands).

The type of aircraft utilised was a Fokker 50 (turbo prop aircraft) - with 50 seats

[34] Cost based on DAA News Release 05.03.2006 'Major Development Programme at Dublin Airport'. http://www.dublinairportauthority.com/media-centre/press-releases/052006.html

available, operated by VLM based in Belgium. The service carried 620 inbound tourists (all Dutch) from Rotterdam to Donegal, with a load capacity of approx 62%. It was estimated by Paul McLoone, Fáilte Ireland North West (August 2008) that this charter would bring an estimated €3m to the North West Region.

This case study provides an excellent example of what could be achieved in the BMW Region i.e., direct region to region tourism through the marketing of direct air access into the Region.

4. Valuing the Contribution of Airports in the BMW Region

4.1 Economic Impact of the Airports in the BMW Region

Understanding the economic impact of any airport is vital to understanding its value and contribution to the local, regional and national economy. A variety of methods and economic tools have been developed to measure these impacts, the most commonly used is the *Input-Output Method* which measures three separate effects – direct, indirect and induced effects of an airport. Multipliers are used to estimate the indirect and induced effects while the size of the multiplier applied is dependent on the population of the catchment areas and the relative impact of the airport on the region. This multiplier effect comprises the local value of money as it circulates through the local economy and as individuals or firms associated with airport business buy goods and services in the local economy. A study commissioned by Airport Council International[35] found that multipliers applied to European airports ranged in value from between 1.3 to 2.4 depending on the size of the airport, economic activity in the region and the population of its hinterlands. It is appropriate for this paper to apply the multipliers as used in the review of Cork Airport[36] in 2001 given that we are examining the sum of the impact of four airports within a similar (albeit larger) catchment area than Cork Airport. Data has been supplied by the individual airports to enable a real picture of their economic impact to be calculated.

4.1.1 Employment

The four Airports in the BMW Region currently directly employ 253.75 FTE staff (see appendix). By applying a multiplier of 1.49 (1.22 for indirect + 1.27 for induced employment[37]) it can be concluded that 378 jobs support by these airports. These airports are therefore significant employment generators in the Region with every two additional jobs created directly in these airports leading to the creation of an additional related position.

[35] York Consulting (1998). The Economic Impact of Airports.
[36] As applied by Kavanagh, Ella, O'Leary, Eoin and Shinninck, Edward. The Role of Airport Infrastructure in Regional Development: The Case of Cork Airport in O'Leary, Eoin (2003). Irish Regional Development: A New Agenda.
[37] Ibid.

4.1.2 Value Added Effects

The airports in the BMW Region make an important contribution to Gross Valued Added (GVA) in this case defined as wages and salaries paid to the employees[38]. These figures were obtained from the airports concerned for 2008. By applying the multiplier of induced and indirect effects the total value added effects of salaries and wages was €14,121,127 in 2008.

4.1.3 Contribution to the Exchequer

In addition to generating employment and value added, the airports are a significant source of Government revenue. The exchequer benefits directly from income tax and PRSI contributions paid by airport employees and employer PRSI contributions[39]. The multiplier here adds the contribution of indirect monies contributed to revenue by the airports suppliers and the induced impacts which are generated as a result of the expenditure of direct and indirect employees. The total tax contribution to the exchequer was €3,555,483 in 2008.

4.1.4 Inward Tourism Impact

The benefits brought to regions by overseas visitors include additional local expenditure and jobs which in turn stimulate demand for goods and services locally through indirect and induced effects. Airports act as a gateway for tourists entering a region while also facilitating Irish tourists travelling abroad.

Current trends point to a decline in the number of overseas tourists entering the BMW Region by air. The greater majority of existing charter holidays to and from the Region are outward bound residents of the Region travelling to sun and ski destinations (see appendix for destinations). Scheduled external flights to the Region have traditionally been to and from UK destinations, with the recent exceptions in 2008 of the Galway – Amsterdam (service ceased in January 2009) and Galway – Lorient (summer 2009) and IWA, Knock to Alicante (launched in June 2009) routes, while inbound charter flights to the Region have been few and far between.

[38] Company profits were not included in these figures.
[39] Data in relation to corporation tax, local government charges and levies is not included in these calculations.

By drawing on passenger surveys and available data[40] on the level of expenditure by tourist origin, it is possible to estimate the economic impact of inbound tourists using the four airports in the BMW Region. Based on the information provided for 2008, the total estimated expenditure by tourists arriving at BMW Regional airports in 2008 was €93,316,891.

4.2 Public Benefits of Regional Airports

The public benefits that result from the effective operation of regional airports are often overlooked in a cost-benefit analysis when investment decisions are made. While they differ from economic impacts they provide a variety of benefits to the surrounding areas. The most substantial of these is the time saved and cost avoided by air travellers using regional air access points. The greater the range of destinations from and to a region, the larger the associated public benefits will be.

Regional airports relieve congestion at busy metropolitan area airports (i.e., Dublin Airport) and remove traffic volumes from the surrounding road linkages. The development of services at regional airports will ultimately provide a more environmentally sound air service system for Ireland, minimising the total distance required to access air travel and reducing passenger demand at congested airports. The potential therefore also exists for regional airports to make urban areas more efficient.

Evidence from aviation industry literature found that airports which can demonstrate greater reliability and predictability on all portions of an air trip, may be able to significantly influence passengers' choice of airports. The extra margin of time required when setting out on the journey is often perceived as wasted waiting in the airport terminal. These airports provide a more convenient and less stressful travelling experience; their ability to offer less 'terminal time' is a key competitive advantage.

The BMW Region's airports also provide connections to the national airport system via the provision of connections to Dublin and therefore open up the range of worldwide destinations. A good example of this currently in operation is the code

[40] Fáilte Ireland and CSO Household Travel Survey statistics.

sharing agreement between Aer Arann and Ethiad Airways and if you wish to fly from Galway Airport[41] to Australia for example, you can now do so via Dublin and Abu Dhabi (See 5.2.2).

Regional airports also facilitate public services such as the coastguard, this is the case in Sligo Airport where the northwest base of the Irish Coastguard is has its headquarters, while Galway Airport acts as an alternative destination for Shannon Air Sea Rescue.

Waterford Airport provides a template for a successful pilot training programme that could be replicated in one of the BMW Region's airports. The Pilot Training College based at Waterford Airport is a world-class facility which provides training towards a Commercial Pilot Licence for the international aviation business. In 2008, Waterford Institute of Technology in association with the Pilot Training College established Ireland's first ever BSc in Airline Transport Operations.

4.3 Airport Business Parks

Where airports have available land, business parks have the potential to capitalise on the attractiveness of air service connectivity to business. The Shannon Free Zone a tax incentivised (airport) business park currently employs 7,200 and houses companies from the US (57%), Continental Europe (27%), UK (6%), Canada (4%), Japan (2%) and the reminder (4%) from other countries[42]. This represents the only example of a significant innovation-led airport-based economic stimulus policy specifically targeted at developing a region in Ireland. It is also noteworthy that this policy is supported by Shannon Development, the regional development body charged with driving economic development in the Shannon Region. Currently in the BMW Region there is neither a tax incentive-based policy for commercial investment in business parks nor a dedicated regional development agency driving such an agenda. The Western Development Commission, the statutory body that was set up to promote both social and economic development in the Western Region[43], has provided funding

[41] This would also apply to the other airports in the Region as the Dublin route is operated by Aer Arann from each of these airports.
[42] www.shannondevelopment.ie
[43] Donegal, Leitrim, Sligo, Mayo, Roscommon, Galway and Clare.

to Ireland West Knock Airport through its Western Investment Fund and also has been a strong advocate of international air access to the Western Region.

The BMW Regional Assembly[44] has advocated the development of regional innovation strategies for all regions[45], this could include the examination of potential opportunities for replicating the Shannon Development model of regional development. Central to this strategy could be the exploration of the developmental opportunities for airport business parks to be achieved with the aid of a tax incentive stimulus package.

[44] BMW Regional Assembly (2008).Submission to the Green Paper on Local Government Public Consultation. http://www.bmwassembly.ie/Research%20&%20Policy/Policy_Papers.htm
[45] BMW Regional Assembly (2009). Submission to the Innovation Taskforce, September 2009.

5. State Funding and Tax Policy for Non-DAA Airports

5.1 Guidelines for the Financing of Airports in the EU

The EU guidelines on the financing of airports govern the extent of state funding to airports in Ireland. The Commission's 1994 Guidelines on the application of Article 92 and 93 of the EC Treaty in respect of State Aid to the aviation sector relate almost entirely to the conditions for granting such aid to airlines in the form of Public Service Obligations (PSOs) and aid of a social nature. The 2005 Guidelines[46] which are additional to the 1994 Guidelines specify how the competition rules must be applied to the various means of financing airports and the provision of start-up aid for new services from regional airports. Under these guidelines different forms of state funding are allowed based on the category of airport to which the funding is to be allocated.

Categorisation of EU Airports

A. Large Community Airports = 10 million or more passengers per year;

B. National Airports = 5-10 million passengers per year;

C. Large Regional Airports = 1-5 million passengers per year; and

D. Small Regional Airports = less than 1 million passengers per year.

Guidelines for the financing of airports in the EU

(i) Construction and development of EU airports and airport equipment

• Subsidies possible for the provision of airport services; and

• Subsidies possible for ground-handling services (< 2 million passengers per year).

(ii) Guidelines distinguish between airports of different size for funding purposes

D < 1m passengers/year and general economic interest = exempt from notification;

C > 1m passengers/year = requires the Commission to be notified; and

B > 5m passengers/year = unlikely to be allowed by the Commission.

[46] Commission Communication c (2005) 312 - Community Guidelines on Financing of Airports and Start-Up Aid to Airlines Departing from Regional Airports.
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2005:312:0001:0014:EN:PDF

Types of Activity:

- Construction of airport infrastructure and equipment (runways, terminals, aprons and control towers) or facilities supporting them (fire-fighting, security and safety);
- Maintenance and management of airport infrastructure;
- Provision of airport services (ground-handling, fire-fighting, emergency services, and security); and
- Pursuit of commercial activities not directly linked to the airport's core activities (e.g., renting of land for hotels, offices and storage, car parks and shops).

It is important to note that State aid guidelines apply equally to both private and public airports. The term "State aid" refers to the origin of the funds not the status of the airport. For example, a public airport may act as a private investor by granting subsidies to airlines from its own resources on the basis of commercial profitability considerations. Conversely, if a private airport uses public resources, granted by a regional or local authority for example, this constitutes State aid[47]. State financing for security measures imposed by law is not considered state aid under EU regulations but instead is considered to be part of the essential functions of the state

5.2 Public Service Obligation Routes

A regular air service to the domestic hub centre is considered vital for the economic development of a region. However, where it is not possible to provide regular air services on a commercial basis, this market failure can be resolved through the application of a Public Service Obligation (PSO) route supported by Government funding. EU Members States have the legal authority to impose a PSO in respect of scheduled air routes serving peripheral or development regions within their jurisdiction[48]. Currently 11 Member States[49], along with Norway and Iceland impose a total of 255 PSOs. PSOs routes vary from inter-island routes, linkages to the mainland, domestic mainland routes, international routes and some domestic long

[47] EU Guidelines on Developing State Aid for Regional Airports.
http://europa.eu/scadplus/leg/en/lvb/l06030.htm
[48] Article 4 of Regulation (EEC) NO. 2408/92.
[49] Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Portugal, Spain, Sweden and the United Kingdom.

haul flights e.g., linking France to overseas territories. PSOs can be imposed on non-domestic routes since 1997. Table 4 outlines the 7 routes supported by the Irish Government with an average route distance of 110 miles.

Table 4: Public Service Obligations Currently Operating in Ireland until 21/07/2011

	Route	Operator
BMW Region	Donegal Airport – Dublin Airport	Aer Arann
	Galway Airport – Dublin Airport	Aer Arann
	Galway/Minna (Connemara Airport) – Aran Islands	Aer Arann
	Ireland West Airport IWA, Knock – Dublin Airport	Aer Arann
	Sligo Airport– Dublin Airport	Aer Arann
S&E Region	Kerry Airport – Dublin Airport	Ryanair
Cross-Border	Derry Airport – Dublin Airport	Aer Arann

Source: DG Transport: PSOs – List of Routes Concerned as at 21/01/09

An important misunderstanding around the functioning of PSOs is that the regional airports are subsidised by the PSO funding. It is important to note that the entire PSO subvention goes to the airline. The only direct payment from airlines to the airport is the commercial rate for airport handling services.

The conditions under which a PSO may be applied have become more stringent following new Council Regulations which came into effect on November 1st 2008[50]. Article 16.3 of the new provisions refers to 'the possibility of having recourse to other modes of transport... in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connections and suitable timings'[51]. These new provisions will impinge on the next contracting arrangements for PSOs (post July 21st 2011) within the context of the continued development of rail and road connections. The focus of PSOs in Ireland is on domestic routes with the exception of the Derry to Dublin route. When the new contracts are considered in 2011 the Irish Government will need to carefully consider a strategic approach to developing additional cross-border PSO routes from non-DAA airports.

[50] Council Regulation 1008/08 includes provisions which replace the PSO regime based on Council Regulation 2408 /92.
[51] Council Regulation 1008/08 On Common Rules for the Operation of Air Services in the Community http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:293:0003:0020:EN:PDF

5.2.1 Value of Time Savings on PSO Routes

In 2003 DKM Economic Consultants prepared a report[52] for the Department of Transport which reviewed the PSO programme. One of the principle findings[53] of the report was that 'time saved by users cannot contribute a substantial portion towards costs', in other words the economic value of time saved does not justify the investment in the service. This paper argues that *Section 3.4 Time Savings and the Valuation of Benefits* of DKM's report was flawed by failing to put an economic value on time saved. By putting forward a more detailed estimate of the economic benefit of time savings, this paper will seek to provide a clearer picture of the level of return to Government investment in the PSO programme while also seeking to address DKM's finding during their analysis that no quantification of the regional development and tourism benefits 'had been offered'[54].

In order to understand the value of PSOs to the local economy this paper sought to focus on developing an understanding of the economic payback to the business traveller who uses the PSO service. Data was provided by each airport on the number of passengers using the service, while surveys conducted by the airports identified the level of business usage of this service.

In order to estimate the economic benefit to business travellers the following equations and assumptions were established. The analysis is initially based on a one way trip;

Equation

1) Cost saved due to time savings on journey:
(Difference between travel times taken by car versus air by the Value of Time (VOT) per passenger hour)

+

2) Cost of mode of travel i.e. air fare vs cost of running a car

= Total Economic Benefit to One Business Traveller as a Result of Time Saved by Using the PSO service on a One Way Flight

[52] DKM Economic Consultants (2003). Review of Air Services Supported by the Essential Air Services Programme.
[53] Ibid p.46.
[54] Ibid p.46.

Variables

(i) Travel Times by Car: Source: AA Route Planner[55];
(ii) Distance Measured: Airport to Airport, Source: AA Route Planner;
(iii) Travel Times by Air: Aer Arann recommends for domestic flights 'that passengers check in 1-hour prior to scheduled departure'[56] – it is therefore taken that the average wait per flight is one hour for PSO routes;
(iv) Value of Time (VOT) per Business Passenger Hour: this is taken to be €35.03 and is applied from outcomes of the EU-funded UNITE research project which examined the costs, benefits and revenues of all transport modes across 18 European Countries[57]. The VOT referred to is for 2005.
(v) Travel Cost by Car: this is estimated at 50c per km which is an average of the data provided by Merrion Fleet Management Ireland[58]. This analysis examines the whole-life cost of new cars after three years and 36,000km; and
(vi) Travel Cost by Air: this is based on one way flight cost for each individual PSO route operated by Aer Arann.

Once the equation is solved, the outcome is then multiplied by the number of business travellers using the PSO service in each airport, by doubling this outcome an estimate for the total return journey for the year can be calculated. Based on a total of 96,524 business passengers using the four airports in the BMW Region 2008 and applying the methodology outlined above, in the total value of time saved to business using the PSO service from these airports compared to those using a car for the same journey in 2008 was valued at €12,792,082. By applying this outcome to the 36-month contract from July 2008 to July 2011 the total value for the period of the current contract can be estimated to be €38.376m.

This methodology was also applied to the difference between rail services and the PSO services from Dublin to Galway and Sligo (it is not possible to compare the service to Donegal and Knock due to a lack of direct rail provision on these routes). By applying Irish Rail data for travel times and costs, the equivalent figure comparing rail and air on these two routes only over a three year period was valued at €8.598m or €2.866n per annum.

[55] www.aaireland.ie/routes_beta
[56] www.aerarann.com/about_us/passenger_information.htm#checkin
[57] M. O'Mahony (Trinity College Dublin), H. Link, L. Stewart-Ladewig and P. Bickel, Environmental and social transport costs: case study of Ireland, 84th Transportation Research Board Conference, National Academies, Washington D.C., Jan, 2005.
www.tara.tcd.ie/bitstream/2262/20242/1/O'Mahony,+Link,+Steward-Ladewig+and+Bickel,+Environmental+and+social+transport+costs+case+study+of+Ireland.pdf
[58] www.wfm.ie

With all formulas the adoption of a range of alternative assumptions could be added to effect the outcome however it is considered that the assumptions of this model are relatively robust and do for the first time quantify one of the economic benefits of the application of the PSO programme. Given that the total programme is valued at €45m this can be deemed a satisfactory return for one element of payback. It is important to note that the economic benefit of the PSO does not only accrue to the BMW Region but nationally as business users fly in and out from Dublin.

5.2.2 Case Study: PSOs Onward Connections from Galway Airport

The PSO also plays a crucial role in terms of the utilisation of Dublin Airport as a 'hub' for onward connections. The most recent data available on the levels and range of connectivity comes from Galway Airport. In their analysis of activity between June and August of 2009, 21% of all passengers using the service connected through Dublin Airport onto further destinations on the same day. There were a total of 42 onward destinations recorded over this time period, the most popular of which being Amsterdam (13%) and Paris (12%). Some continued on to a range of further long-haul destinations e.g., Australia, Canada, South Africa, United Arab Emirates and the US.

Having a link to a domestic hub is vital for the development of tourism and business activities in a region, developing linkages to international hubs such as Amsterdam, Paris, Frankfurt and London Heathrow is also crucial for further regional connectivity.

5.3 CAPEX: Capital Expenditure

On September 27th 2006 the European Commission gave the Irish Government clearance to provide state aid to the six regional airports in Ireland. Subsequently under Transport 21[59] the Government committed to providing these airports with €86m in capital grants from a total investment package of €34bn, representing 0.25% of total investment under this programme. Announcing the grant package, the presiding Minister for Transport Mr. Martin Cullen, T.D. stated, "This unprecedented

[59] Transport 21 is the capital investment framework under the National Development Plan through which the transport system in Ireland will be developed, over the period 2006 to 2015.

level of investment reflects the Government's conviction that the Regional Airports have a key role to play in facilitating regional development"[60].

The Department of Transport requested airports to submit a list of projects and associated costs in their application for funding under the CAPEX (capital expenditure) scheme 2008-2010. Following assessment by the Department's consultants, a programme of projects and related costs for each airport was approved by the Government in 2007, this amounted to €85.6m in total direct funding (see table 2).

Table 2: Transport 21 Regional Airports Capital Grants Scheme 2007-2010

Airport	Primary Purpose of Grant	Total Funding €m	Funding Allocated as at 31.12.2008
Border, Midlands and Western Region			
Donegal Airport	Safety and Security Projects	3,800,000	***1,341,624 (35.3%)***
Galway Airport	General Development Works	6,300,000	***1,723,583 (27.4%)***
Ireland West Airport IWA, Knock	Major Apron Development and Terminal Building Expansion	27,000,000	***5,855,786 (21.7%)***
Sligo Airport	Runway End Safety Project	8,500,000	***540,491 (6.4%)***
Southern and Eastern Region			
Kerry Airport	Terminal and Related Facilities	17,700,000	***621,574 (3.5%)***
Waterford South East Regional Airport	Runway Extension and Widening	22,300,000	***3,082,218 (13.8%)***
	Total	85,600,000	***13,165,276 (15.4%)***

Source: Department of Transport

When an airport completes a project approved under its programme it can submit claims for the associated expenditure. Each claim is dependent upon the Department's annual budget allocation. Given the troubled state of the public finances it is now becoming increasingly uncertain if these commitments will be fully met. Already in the second half of 2008 it was announced that grants for 2008 would be confined to

[60] Department of Transport: Announcement of allocations under the regional airports capital grants scheme. 21/02/07. http://www.transport21.ie/MEDIA/Speeches/ANNOUNCEMENT_OF_ALLOCATIONS_UNDER_THE_REGIONAL_AIRPORTS_CAPITAL_GRANT_SCHEME.html

items that were contractually committed up to the 23rd of July 2008. This has been followed by a reduction in the Department's allocation for regional airports in 2009 from €13m to €11m. During 2009 the Department of Transport's focus will remain on existing contractual commitments, funding will be provided for non-committed safety and security projects, where possible.

It is also important to note that Derry City Airport has received €10.87m in funding from the Irish Government. The State's financial commitment to this airport is limited to co-funding the current runway safety project on a joint basis with the UK Government, as agreed in 2005. The expansion of the safety zones at each end of the runway will enable jets to land and take off with full passenger capacities. Just over €5m in grant aid was paid by the Department of Transport in 2008 and it is expected that the Irish commitment will be fully discharged in 2009[61].

5.4 OPEX: Operational Expenditure

The Government also provide funding to these airports in the form of an annual operational expenditure subvention scheme otherwise known as OPEX. This scheme is strictly operated in line with mandatory EU guidelines on Government support for airports. The prevailing EU model of support is based on the proviso that all airports should, at a minimum break even and where this is not feasible, state subvention can be considered.

The extent of the funding awarded is determined following analysis of financial data received from the airports. Funding is awarded when, 'the financial projections and other data submitted annually by a regional airport are analysed to establish the extent, if any, of subventible losses after the airport has done its best to reduce/contain costs and maximise revenue from aeronautical charges and other available sources of income (e.g., car parking charges, catering, concession rentals)'[62]. Therefore paying

[61] More recently, Derry City Council has identified additional safety expenditure of some £15 million necessary to ensure the successful transfer of a sustainable airport facility to a new operator. The Council has approached the Northern Ireland Department for Regional Development seeking further financial assistance and the business case for grant aid is being examined in Belfast. The Irish Government does not propose to contribute to the cost of the additional expenditure.
(Source: Department of Transport)

[62] Source: Department of Transport.

an operational subvention to an airport which is breaking even or is profitable would breach EU guidelines.

The scheme is operated on a year-by-year basis, with each year's application considered in isolation and with payments subject to Departmental resources. In a situation where the total amounts claimed surpass the funds available, the OPEX contract with the airports state that funds will be allocated on a reduced pro rata basis. The Department of Transport has informed the airport management that the amount of funding for OPEX payments in 2009 will be very much constrained by the prevailing economic conditions and have advised the airports that they should make their plans for 2009 on that basis. The following table provides details of the total funding allocated under the scheme to date.

Table 3: OPEX Subvention Scheme 2006-2008

	Airport	€ Funding Allocated as at 31.12.2008
BMW Region	Donegal Airport	*108,600*
	Galway Airport	*2,736,848*
	Ireland West Airport IWA, Knock	*0*
	Sligo Airport	*240,200*
S&E Region	Kerry Airport	*0*
	Waterford South East Regional Airport	*3,579,685*
	Total	6,665,333

Source: Department of Transport

5.5 State Funding to Non-DAA Airports: McCarthy Report 2009

The McCarthy Report[63] which reviewed and provided recommendations to Government on savings on state expenditure programmes has proposed the removal of support for PSOs, the cessation of OPEX and has called for savings to be made to CAPEX. The report suggests that this will make a saving of €27m to the exchequer. The McCarthy Report argues that the current rational for the continued support of non-DAA airports motivated by regional development objectives is no longer valid due to the improved transport linkages between Dublin and these destinations.

[63] Department of Finance (2009). Report of the Special Group on Public Expenditure Service Numbers and Expenditure Programmes, Volume II: Detailed Papers. P.218.

This paper has set out a range of justifications for the continued advancement of the role for the airports in the BMW Region in terms of presenting their real economic value and their importance as access points to the Region. The conclusions of the McCarthy Report in fact reinforces the arguments and recommendations proposed by this paper in relation to the development of a national aviation policy taking due consideration of the role of non-DAA airports – the current lack of direction on this issue at a national level has led to confusion and a lack of understanding about their roles and this is borne out by the weak arguments for the eradication of the current State supports to these airports presented in the McCarthy Report. In stating that transport linkages are now adequate enough to these destinations so as not to require air linkages to Dublin further highlights the flawed and misconstrued conclusion.

When the time comes for the Government to review these recommendations, it is vital that the decision-making process takes due consideration of the significant economic contribution currently made by non-DAA airports (as established in this paper for airports in the BMW Region) while also possessing the foresight to envisage the internal rate of return to the State from investment and supporting their strategic development into the future.

The current Value for Money Review of non-DAA airports being undertaken provides an opportunity for the Department of Transport to take due consideration of the role of these airports in terms of national aviation policy. The application of a multi-criteria analysis of the present and future contribution of these airports should provide a case for the further development of these important regional and national assets.

5.6 Airport Departure Tax

In the October 2008 budget the Minister for Finance announced an air travel tax for all passengers travelling from Irish airports, €2 on all journeys less than 300km and a €10 tax on routes greater than 300km. This would imply that passengers on certain routes to the UK (e.g., Birmingham and Manchester) flying from regional airports would have to pay €10, while those travelling from Dublin would only pay a €2 tax.

Following representation by the airports[64] and industry objections this tax has been amended. The new tax condition included in the Finance Bill removed the regional imbalance and the new tax now means that passengers departing Irish Airports for any destination within 300km of Dublin will now pay the lower €2 tax. On February 25th 2008 the Government took a positive step when it announced that airports with less than 50,000 departing passengers would be exempt from this tax. Based on current passenger levels this exception applies to both Donegal and Sligo Airports.

While the former amendment ensures that all airports are treated on an equal basis to Dublin Airport, it is nevertheless important to bear in mind that this tax is a revenue generating tax and it is not intended to be re-invested in the aviation sector. The introduction of this tax from the 30th of March 2009 will act as a disincentive for price sensitive customers in a market where the low cost model dominates and could have serious negative implications for our tourism industry which was valued at €6.3bn in 2008.

[64] Regional airport representatives attended a Oireachtas Join Committee on Transport meeting on 22.10.08 to outline their objections to this departure tax.

6. Publicly Owned Airport and Non-State Airports

6.1 Provision of Public Services

Regional airports provide a range of public services at their own cost, namely security, air traffic control, fire and other airport services that are absorbed by the public sector in other transport sectors. Airports must absorb those costs in full unless they are in receipt of subvention under OPEX, often payment from OPEX does not cover these costs.

6.1.1 Air Traffic Control

Air traffic control is provided by the Irish Aviation Authority at no individual cost to the State Airports. The state system of training and developing air traffic controllers means that non-state airports must pay a premium to either recruit or train controllers. After being funded for training by regional airports these controllers are free to work for any of the State Airports. The state has a training facility at Shannon Airport and consideration should be given to providing an opportunity for other airports to have their controllers trained at this facility.

The Irish Aviation Authority charges EUROCONTROL[65] for every nautical mile covered by air traffic control at Irish airports. Regional airports' air traffic control systems take control of all flights landing and departing within 20 nautical miles of their airport, however regional airports do not receive any share of this remuneration.

6.1.2 Security Regulations

Non-state airports come under the same regulatory requirements as State Airports. It is important to bear in mind that, these airports have to have the same equipment and staff competencies as the larger state airports, but a much smaller passenger base to spread the cost over, therefore making their cost per handling a passenger much higher.

Passengers are put through the same screening process in Dublin even after they have been screened using the same specification equipment and search protocol when travelling from another Airport. Aviation policy should ensure that Dublin Airport

[65] The European Organisation for the Safety of Air Navigation.

maximises its potential to act as a hub, this can be achieved by developing better Transfer/transit facilities and associated security arrangements.

To this end the International Air Transport Association has urged Ireland to adopt and implement the One-Stop Security procedure[66]. This system is based on the mutual recognition of security measures by governments where they agree that transfer passengers do not need to be rescreened if they have been adequately screened at their airport of departure.

6.2 Transatlantic Access and Pre-Clearance Facilities for US Customs

There is a strong relationship between the point of entry of transatlantic flights and the propensity for North American tourists to visit that region. In 2007, 1.071m North Americans visited Ireland and contributed €823m to the Irish economy. Just 11% visited the North West compared to 39% for the South West Region[67].

IWA, Knock Airport is the only airport in the BMW Region that currently has the capability to handle transatlantic jets. During 2007 the airport demonstrated that there was a demand for this service when Flyglobespan operated flights to the US with a 93% load factor on New York and 86% on Boston scheduled flights and approximately 63% of total sales stemmed from the IWA, Knock routes specifically (these flight routes were Glasgow-IWA, Knock -Boston and Liverpool-IWA, Knock - New York). IWA, Knock 's US routes achieved 3% of total Irish market share in 2007 and generated an estimated 10,000 inbound US passengers, which contributed €3.85m to the West and North West Regions[68].

Shannon and Dublin Airports are set to become the first full pre-screening U.S. Customs and Border Protection (CBP) and pre-clearance airports in Europe. Flights from Shannon in July 2009 and from Dublin in 2010 to the U.S. will be treated like domestic flights in the US. Passengers will have no need to undergo further time consuming checks in any US airport. All customs, US immigration and agriculture clearance will now be completed before passengers leave Ireland. Currently only US

[66] http://www.iata.org/pressroom/pr/2009-05-07-01.htm
[67] Fáilte Ireland (2008). Tourism Facts 2007.
[68] Data Source: IWA, Knock Airport.

immigration clearance facilities are available at both airports. In order to compete and deliver future transatlantic services to the BMW Region, IWA Knock Airport will need to be in a position to offer the same level of customer service facilities as on offer in other airports in Ireland. This would also be an important aid to developing lucrative private aviation business between Ireland, Europe and the US e.g., as a refuelling stop of convenience.

6.3 Shannon Airport – Economic & Tourism Development Plan

In response to the withdrawal of the Aer Lingus service to Heathrow in January 2008 and in the context of the transition to and impact of the 'Open Skies' Agreement on Shannon Airport, the Department of Transport published an economic and tourism action plan for the Shannon Airport Catchment Area[69]. Contained within this plan was the commitment 'to provide additional funds, over and above existing commitments in the NDP for a targeted Tourism Ireland-led overseas marketing campaign for the wider catchment of the Shannon Airport, from Kerry to Donegal'[70]. It is important the each airport in the BMW Region should develop a similar detailed economic and tourism development plan – this is further discussed in Chapter 7.

6.4 Commission for Aviation Regulation

The Commission for Aviation Regulation sets a minimum charge at Dublin Airport, which all airlines will have to pay, but has no remit to set charges at non-state airports. This creates an uncompetitive landscape which gives these airports reduced bargaining power.

[69] Department of Transport (2008). Shannon Airport Catchment Area: Economic and Tourism Development Plan. January 2008.
[70] Ibid p.3.

7. Key Findings/Recommendations

The key findings of this paper:

1. Airports in the BMW Region make a positive contribution to economic development, tourism and the business capacity of the Region. In 2008 they were responsible for 378 jobs (direct, indirect and induced), contributed €14.1m to value added and produced €3.5m for the exchequer, while inbound tourists arriving at the BMW Region's airports spent €93.3m.

2. Airports located in the BMW Region have achieved an increased share of the total passenger numbers since 2000 and surpassed the 1m mark for the first time in 2008.

3. Ireland's reliance on the provision of air transport is the 3rd highest amongst the EU 27, behind Cyprus and Malta.

4. The poor provision of transport infrastructural has acted as a barrier to development in the BMW Region. Investment in the airports can help address this.

5. Government policy clearly states that Regional Airports are 'key resources' for regional development. However aviation policy has not borne out this assertion. Regional Airports are not treated on an equal footing in relation to the costing and provision of aviation services.

6. Public Service Obligation (PSO) routes provide important connections between Dublin and the regions and confer significant added value to the regions served. The time savings for business travellers over a 3 year period were estimated to be €38.376m (on car vs air).

7. The ability to unlock existing underdeveloped capacity at regional level will play a key role in the development and sustainability of the BMW Regional economy. Tourism and commercial development are all intrinsically dependent on the availability of local air access points.

8. Currently in the BMW Region there is neither a tax incentive-based policy for commercial investment in business parks nor a regional development body (equivalent to the Shannon Development model) focused solely on driving such an agenda.

9. A greater focus in state supports is needed on route development initiatives, within allowable state aids. This would enable the regional airports to fulfil their economic potential, use available capacity and generate a higher rate of return to ongoing capital investment. It would also lessen the requirement for OPEX subsidies over time.

The Irish air transport sector faces considerable challenges in the short-term owing to the existing turbulent economic climate, the concentration of long-haul traffic at the large European airports and consolidation within the airline industry. All of these could have adverse effects on Ireland's regional and national development priorities if not properly addressed. The opportunity to develop these airports as engines of employment and economic growth remain.

We propose the following recommendations:

TO GOVERNMENT

1. Develop a National Aviation and Air Connectivity Strategy for State and Non-State Airports

The Irish Government is responsible for supporting economic and tourism development in all regions. It is vital that a long-term Irish Aviation policy be developed that meets regional development needs and national development priorities. It should set out a clear role and establish targets for all non-DAA airports, taking account of the particular role for the City of Derry Airport in the context of national policy, the NSS and Regional Planning Guidelines. It should outline the mechanisms through which these developmental targets can be achieved. By seeking to establish a flexible and transparent air transport policy for Ireland it will allow regional economies to take full advantage of opportunities arising in the changing operating environment and it should also ensure that bottlenecks and constraints do not restrict opportunities for enhanced accessibility to and from Ireland[71].

The National Aviation and Air Connectivity Strategy for Ireland should seek to:

A. Retain and Develop PSOs

This paper has demonstrated that the PSOs will provide a €38.3m saving to the Irish economy in terms of business hours saved over the 3 year period of the current contracts to 2011. The importance of these linkages should not be underestimated in terms of their economic efficiency savings, tourism and social benefit. Consideration should also be given to extending PSOs from the regions to European hubs e.g.,

[71] Reynolds-Feighan, Aisling (2003). A Review of Irish Airports Policy. Irish Banking Review, Spring 2003. p.61.

Amsterdam, Frankfurt, London (Heathrow) and Paris (Charles De Gaulle) in order to develop connectivity and opportunities for further growth in the Region.

B. Readdress Current Policy Imbalances between State & Non-State Airports

The Government should ensure that all airports are treated on a more equal footing. Unlike the three DAA Airports, non-DAA airports have to fund items such as air traffic control, security, licensing costs and the provision of public services.

C. Develop Transport Linkages to Airports in the BMW Region

Provision should be made to improve the transport links serving existing airports in terms of bus, road and rail, including the Western Rail Corridor[72]. This can effectively extend their respective catchment areas and provide greater choice for passengers which in turn will enable an increase in services. This will bring benefits for inward investment, indigenous enterprise and tourism.

This can be supported by the provision of more and improved directional signposting for regional airports, along with the opening up of bus route licensing which is restricting the introduction of routes served by private bus companies.

D. Establish a Transatlantic Policy for the Western Economic Corridor

This strategy should also incorporate a coordinated approach to developing transatlantic services along the western economic corridor airports of Cork, Shannon and IWA, Knock to ensure a balanced spread of transatlantic air access points in the west of Ireland. Ultimately the maximisation of accessibility to and from Ireland must be the metre against which public policy decisions are evaluated[73].

E. Pro-Actively Develop Airport Business Parks

The Government should examine the potential economic stimulus that could be provided by tax breaks and special zoning status for fast-tracking planning for the development of airport business parks at airports in the BMW Region. As

[72] 'Conventional rail can play an important role and its development to connect secondary and regional airports should be encouraged through Members States and Community funding'. European Commission (2007). An action plan for Airport Capacity, Efficiency and Safety in Europe, p.9.
[73] Ibid p.47.

demonstrated in the Shannon Region, airports when combined with a neighbouring industrial, business or technology parks, can be a valuable stimulant to the economic development of a region. While current economic conditions currently constrain the immediate development of these parks, a strategy should be put in place to ensure that these industrial areas are positioned to take advantage of the recovery of the domestic and global economy.

F. Introduce a Route Development Fund

A route development fund should be introduced for each of the regional airports to enable them to research and promote new services to avail of existing capacity at the airports. The cost of this could be shared between the Departments of Transport and Tourism and the regional airports themselves from the revenue generated by the current airport departure tax. Further route development would also lessen the requirement for operational subsidies (OPEX). The route development fund could incorporate industry contributions, similar to the Donegal-Rotterdam Charter model[74].

G. Meet NDP Commitments to Fund Capital Investments

Currently there is uncertainty over the status of the Regional Airports capital investment programme. The Department of Transport is currently committed to only fulfilling existing contracts and it is not clear if the programme of works at each airport will be fulfilled. The Government should meet its original NDP commitments to capital investment at Regional Airports. This will enable the airports to plan their budgets in advance and allow for a more effective operation of activities.

[74] Refer to recent call from the Cyprus Tourism Organisation for proposals to operate new/expanded air passengers to and from Cyprus to regional airports in Germany, Ireland and Italy.
See www.visitcyprus.biz

TO BMW REGION AIRPORTS

1. Develop and Implement an Economic and Tourism Plan for each Airport Co-ordinated through an Airport Led *'Airport Forum'*

The development of an effective economic and tourism plan for each airport in the BMW Region and its successful implementation can improve the economic development, employment and tourist potential of a region. In order to achieve these objectives a partnership approach is recommended. This follows the prescribed method adopted by airports in the UK following a recommendation in the 1998 White Paper on Transport[75] which advocated that all airports with scheduled services would lead an Airport Transport Forum. It had found that large airports in the UK had independently and successfully applied this method and found it 'valuable in ensuring co-operation between all those interested in the development of surface transport serving the airport'[76]. The development and implementation of an economic and tourism plan for each of Ireland's airports is a wider brief and would require a more diverse membership to an Airport Forum (AF).

The AF should be established with the partnership of key stakeholders e.g., Chambers of Commerce, Enterprise Agencies, Hotelier Organisations, National and Local Tourism Organisations, Aviation Authorities, Public Transport Bodies, Regional and Local Government Bodies. This AF should devise and oversee the implementation of the economic and tourism plan. This plan is likely to require the implementation of a wide ranging set of measures for which each of the stakeholders will have an important role. Issues such as the possible sourcing of funding for activities or the development of a focused marketing programme can be more easily resolved through this forum. By adopting this institutional and organisational framework[77], this partnership approach led by the individual airports id more likely to succeed in co-ordinating and maximising the contribution of airports to their local and regional economies.

[75] UK Department of Transport (1998). A New Deal for Transport: Better for Everyone – White Paper.
[76] Ibid p.70.
[77] Example: The Cork Airport Consultative Committee (est.'07) is comprised of members from the South West Regional Authority, Local Authorities and T.D.s, DAA, Cork Chamber of commerce, IBEC and the Association of Irish Travel Agents .The Committee meets on a quarterly basis to review activities at the airport and to generally promote the levels and range of services through Cork Airport.

2. Promote the Development of Air Services in the BMW Region

Maintaining the growth in passenger figures in the BMW Region will become more difficult in the short to medium term due to the current period of economic decline – it is therefore important that catalysts are introduced to offset this market failure. The economic literature shows that during periods of consolidation by airline services, airports dominated by low-fare carriers may lose service more rapidly since the network carrier tends to target their services towards markets with high profit margins. In order to support regional expansions and following the best practice precedent set by the 1996 "Fly New England Campaign" it is recommended that a coalition of airports in a Region, relevant industry actors and appropriate agencies should be formed in order to promote the development of air transportation services in the BMW Region. Initiatives should include the following:

1. **Market Analysis**: conduct a study of the geographical distribution of air passengers from the BMW Region utilising external airports outside the Region in order to assess 'leaked' demand and evaluate the untapped opportunities that exist for improved services across the Region. The initial validation of this analytical approach conducted in the state of New England was confirmed by the fact that the leakage rate and new service opportunities estimated in 1996 emerged as a strong indicator of where passenger growth would occur in the late 1990s; and
2. **Regional Conference/Seminar**: this would present an opportunity to introduce the findings of such a market analysis exercise to demonstrate to airlines the opportunities for enhancing revenues through lower fares and new and improved routes. This would also provide a launch event for a collaborative marketing campaign to improve passengers' and travel agents' awareness of the opportunities and potential for the BMW Regions' airports.

3. Establish a Regional Airports Policy Group

Currently there is considerable informal consultation and cooperation between Ireland's six regionally based airports. It is considered that the establishment of a Regional Airports Policy Group could establish working relations on a more formal footing. The group could meet once or twice a year or on a more ad hoc basis when a

relevant issue requires collective consideration. This framework organisation would facilitate the group to speak as a 'common voice' when communicating with the Irish Government and the European Union on policy areas that are felt to warrant a collective response pertaining to all airports. It could also act as a problem solving tool where common ground exists. While competition exists between all regional airports acting in the same commercial space, the creation of this group could act as a vehicle for developing areas of common interest[78]. It could also act as a point of contact and become the mechanism through which Government could engage with the regional airports agenda.

[78] The Telecoms and Industry Federation (TIF), the IBEC group that represents Irish telecom providers, provides one example of the usefulness of a 'collective voice' on industry relevant issues in a competitive environment.

Appendix 1

Donegal Airport

Ownership: 49% Údarás na Gaeltachta, 51% Private
Direct Employment: 25 Full Time (FT) & 6 Part Time (PT)
(Full Time Equivalent (FTE): 28)
Passenger Number 2008: 65,537
Destinations 2009:
Scheduled Flights
Ireland: Dublin (PSO)
UK: Prestwick
Summer Charters: Rotterdam, (weekly inward bound charter for 20 weeks May – September 2009)
Other Airport Users: Donegal Airport is a base for air services to the off-shore gas/oil exploration companies, access via helicopter and fixed wing operations.

Galway Airport

Ownership: Galway Chamber of Commerce (90%), (minority shareholding private-Galway County & City Council)
Direct Employment: 72 FT & 11 PT (FTE: 77.5)
Passenger Number 2008: 266,371
Destinations 2009:
Scheduled Flights
Ireland: Dublin (PSO) (+1 non-PSO a day)
UK: Edinburgh, London Luton and Manchester
EU: Lorient (operation due to recommence summer 2009)
Summer Charters: Bordeaux (France), Faro (Portugal) and Malaga (Spain)
Other Airport Users: Executive Helicopters Ltd., Galway Flying Club and as an alternative destination for Shannon Sea and Rescue.

Ireland West IWA, Knock Airport

Ownership: Connaught Airport Development Company Ltd
Direct Employment: 109 FT & 5 PT, *20 FT & 10 PT Seasonal (FTE: 117.75[79])*
Passenger Numbers 2008: 628,000
Destinations 2009:
Scheduled Flights
Ireland: Dublin (PSO)
UK: Birmingham, Bristol, East Midlands, Glasgow, Liverpool, London Gatwick, London Luton, London Standsted and Manchester.
Summer Charters: Bourgas (Bulgaria), Cadiz (Spain), Lanzorate, Majorca, Malaga (Spain), Salou (Spain), Split (Croatia) and Zurich (Switzerland)
Winter Charter: Salzburg (Austria)
Summer Scheduled Flights: Alicante (Spain)
Other Airport Users: Helicopter Flight Training School and Skywest Aviation.

[79] *FTE for seasonal workers= FT 0.25 (i.e. employed for 3 months) PT 0.125*

Sligo Airport

Ownership: Sligo-North West Airport Co Ltd
Direct Employment: 29 FT & 3 PT (FTE: 30.5)
Passenger Number 2008: 42,493
Destinations 2009:
Scheduled Flights
Ireland: Dublin (PSO)
UK: Manchester (Currently suspended, for review Spring 2010)
Other Airport Users: Northwest base for the Irish Coastguard – Employs 26, Usher Aviation (Light Aircraft Maintenance and Aviation Consultancy Business) and the Sligo Aeronautical Club.

Appendix 2

Discussions/Meetings held with:
Ms. Anne Bonner, Managing Director, Donegal Airport
Ms. Eillis Barrett, Operations Manager, Donegal Airport
Mr. Enda Candon, Director of Business Partnerships, Ireland West Airport Knock
Mr. Liam Scollon, Chairman, Ireland West Airport Knock
Mr. Joe Corcoran, General Manager, Sligo Airport
Mr. Joe Walsh, Managing Director, Galway Airport
Mr. Damien Tierney, Commercial Development Manager, City of Derry Airport

Mr. John Concannon, Director of Regional Development, Fáilte Ireland
Mr. Martin Donnelly, Product Development Manager, Fáilte Ireland North West
Mr. Aubrey Irwin, Head of Operations, Tourism Ireland
Mr. Dennis Murphy, Assistant Principal, Department of Transport

BMW Airports Meeting Held 01.04.2009
In Attendance:
Ms. Anne Bonner, Managing Director, Donegal Airport
Mr. Enda Candon, Director of Business Partnerships, Ireland West Airport
Mr. Joe Corcoran, General Manager, Sligo Airport
Ms. Berni Chambers, Marketing Manager, Sligo Airport
Mr. Joe Walsh, Managing Director, Galway Airport
Mr. Kieran Moylan, Assistant Director, BMW Regional Assembly
Mr. Adrian O'Donoghue, Policy & Research Officer, BMW Regional

BMW Airports Meeting Held 13.08.2009
In Attendance:
Ms. Anne Bonner, Managing Director, Donegal Airport
Mr. Enda Candon, Director of Business Partnerships, Ireland West Airport Knock
Mr. Joe Gilmore, Managing Director, Ireland West Airport Knock
Mr. Joe Corcoran, General Manager, Sligo Airport
Mr. Gerry Finn, Director, BMW Regional Assembly
Mr. Kieran Moylan, Assistant Director, BMW Regional Assembly
Mr. Adrian O'Donoghue, Policy & Research Officer, BMW Regional Assembly

Apologies:
Ms. Bernie Chambers, Marketing Manager, Sligo Airport
Mr. Joe Walsh, Managing Director, Galway Airport