

FUTURE OWNERSHIP AND OPERATION OF CORK AND SHANNON AIRPORTS

Submission from the Chartered Institute of Logistics and Transport to the Minister for Transport Tourism and Sport

Introduction

The Institute welcomes the publication of the consultancy study *Options for the Future Ownership and Governance of Cork and Shannon Airports* and, having considered the findings and conclusions of that study, wishes to outline its views on the future governance of the two airports.

The Institute supports in principle the tentative conclusions emerging from the study:

- The status quo is not a realistic longer term option for the airports.
- Shannon Airport should be established as a separate entity with an independent board which would let a long term operating concession.
- Cork and Dublin Airports should remain part of the DAA but with each airport established as an operating subsidiary.

Shannon Airport

The Institute agrees with the view of the consultants that Shannon Airport faces a very challenging future. Its passenger traffic has halved from the peak which is a much greater reduction than that experienced by Dublin and Cork Airports and far more than accounted for by the sharp decline in the economy. Even as the economy begins to recover, it will continue to face significant ongoing downside risks. It is very dependent on two airlines, Aer Lingus and Ryanair, who have already withdrawn or reduced services when it was in their commercial interest to do so and who will be prepared to do so again if market conditions warrant it or if they cannot negotiate satisfactory terms with the Airport. Trans-Atlantic traffic has also been falling and is vulnerable to commercial pressures and external events. The recent substantial levels of military traffic also cannot be relied on in the longer term.

Although most of the financial and commercial data in the consultants' report has been redacted, it is hard to disagree with their conclusion that Shannon's future viability cannot be assured through growth in passenger traffic alone and that new sources of revenue are needed. We agree with the assessment that Shannon faces a greater threat to its future viability than Cork.

The Institute is supportive of plans to develop significant cargo operations, including logistics support for global emergency aid missions, at Shannon Airport and these

plans will be substantially assisted by the successful negotiation of a cargo pre-clearance agreement with the United States.

The Institute agrees that the integration of the Airport with the adjoining industrial and commercial landholdings is worth pursuing as a basis for assuring the future financial viability of Shannon. Direct Exchequer support would establish a bad policy precedent and in any event is very unlikely to be a realistic option for the immediate future. The only potential exception to this is that a payment to Shannon Airport might be appropriate in respect of the requirement to be operational 24 hours a day because of its position on the edge of the North Atlantic.

While supportive of the principle of establishing Shannon Airport as an independent entity, the Institute considers that a decision to proceed on these lines can only be taken when a credible business plan has been prepared that demonstrates with a reasonable degree of confidence that it will be viable in the longer term. Decisions on structure should derive from a credible business strategy, not the other way around. There are no certainties in the aviation business, but it needs to be shown that Shannon has a reasonable prospect of success before setting it free. It is not enough to propose the growth of the airport's freight business and the integration of adjoining landholdings. There needs to be a hard nosed commercial and financial analysis based on credible assumptions for the future. Those assumptions should include increased competition from Cork and Dublin Airports. The Government also needs to be clear as to the assumptions about its future interventions in the market. For example has it any longer term plans to provide PSO or other supports for

regional airports which compete with Shannon for traffic? It may be that such a business plan has already been developed and that it has been assessed by the consultants. However since most of the financial sections of their report has been redacted it is not possible to say, hence our comments above.

The constitution and composition of an independent entity needs to be carefully considered. While the Institute supports the principle of local involvement and engagement, it is critically important that the governance of the new entity has a relentless commercial focus. The nominating bodies will have to ensure that the board is comprised of people with a strong business background and with the necessary skills either to oversee the direct operation of the Airport or to put in place an effective and successful long-term operating concession. It will also need the skills to ensure the successful exploitation of the associated land portfolio, thereby assuring the continuing viability of the Airport. It is critically important that the entity has an unambiguous mandate with a small number of clear and coherent objectives which do not cloud its vision or dilute its quest for viability.

There may be merit in considering the creation of a new entity involving an effective merger of the Airport and Shannon Development which would bring together the

necessary range of airport operating, property portfolio management and regional development skills. Such an approach is superficially attractive on grounds of institutional tidiness, but it would be important to ensure that there was a good fit between the two existing bodies and that the resulting entity had the necessary commercial focus and ambition. It would also be critical to ensure that the execution of a merger did not result in the diversion of management time and energy towards institutional issues and away from the achievement of its core commercial objectives.

The Institute also supports the implementation of a long-term operating concession for Shannon Airport. However we again stress the importance of putting in place a board with the capacity to successfully procure and oversee the implementation of the concession contract and of setting clear and unambiguous commercial objectives for it.

Cork Airport

The Institute agrees with the consultants' assessment that the most suitable option for Cork Airport is as an operating subsidiary of a holding company owning both Dublin and Cork Airports. While full autonomy might be desirable in principle, it appears from the analysis that it would pose significant financial risks to the DAA and potentially disrupt its financing plans. Given the overwhelming importance of Dublin Airport to the national economy this would clearly be highly undesirable. Therefore the most realistic viable option for Cork is as an operating subsidiary with the optimum level of commercial independence. Ideally the subsidiary would be set clear financial and business targets by the holding company and then be given the maximum possible freedom to operate the airport, develop traffic and negotiate its own competitive commercial terms with airlines. Centralisation of functions within the holding company should be kept to an absolute minimum and should not unnecessarily impede the subsidiaries, either at Dublin or Cork Airports, in acting in their own commercial interest. There may be good corporate governance reasons for centralising some functions such as treasury. It may also be cost effective to centralise some services such as HR and IT, but to guard against inefficiency the subsidiaries should be allowed to opt out if they can provide those services themselves or procure them at lower cost.

General Issues

The State airports are a strategic national asset. The primary airport assets (the airfield, terminal buildings and other operational facilities) should therefore remain in State ownership whatever governance and operational model is implemented.

There needs to be clarity as to the regulatory framework in which Cork and Shannon Airports will operate. Will their charges be regulated or will they be free to set them

on a commercial basis? Will PSOs be awarded to regional airports with competing catchments? Will Shannon be compensated for the requirement to provide 24 hour cover for the North Atlantic? These issues will be important when considering the commercial viability of the proposed ownership and operating models.

The allocation of debt is clearly a very important and sensitive issue. In principle, debt should “lie where it falls”. In other words it should be carried by the airport on whose behalf the investment was made. It is wrong as a matter of policy and clearly not a practical proposition in current circumstances that the State should assume responsibility for any of the debt. It is also important to avoid loading debt from the other airports onto the customers of Dublin Airport given the importance of that airport as an international gateway to Ireland. Such an approach might assist Cork and Shannon, but would be a net negative for Ireland as a whole.

The consultants may be too optimistic when they conclude that the resolution of pensions issues may not be a major obstacle to separation of the airports. There is already a large actuarial deficit in the IAS pension scheme and a number of actors with differing interests. Ryanair has repeatedly threatened Aer Lingus with legal action if it makes any additional financial contribution to resolve the existing pension deficit. Separation of DAA pensions from the existing IAS pension scheme may be challenging enough on its own without contemplating further disaggregation to the individual airports. While solving the pensions issues should not be allowed to dictate airport strategy or aviation policy, the Government has to be satisfied that a workable solution can be found before with it proceeds with changes to the ownership structures of the State airports.