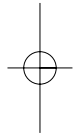


Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • **Developing All-Island Air Services on the Island of Ireland** • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain • Entrepreneurship • Micro Enterprise Study • Digital Island Strategy Paper • Competitiveness Reports • All-Island Bio-Mapping Study Private Sector • All-Island Bio-Mapping Study Public Sector • Seed Corn Funding Study • Cross-border Air Flights • Trade Statistics • Public Procurement Position / Paper • Supply Chain •



InterTradeIreland, the Trade and Business Development Body was established in 1999 to 'exchange information and co-ordinate work on trade, business development and related matters, in areas where the two administrations agree it would be in their mutual interest.'

The logic behind the deepening of economic links is based on a clear economic rationale that increased co-ordination of trade and business development activity can help engineer the realisation of economic spillovers and synergies that will mutually benefit both the North and the South.

In the context of the deepening of economic links on the island of Ireland these benefits will be achieved through:

- co-operation, alliances and trade between firms,
- the opportunity to address a larger overall market,
- exposure of products and services to a wider range of demanding customers; and
- improved supply-side characteristics such as skills, training, technology and telecommunications infrastructure.

InterTradeIreland's mission is 'to lead the development of the island economy through distinctive knowledge-based interventions which will produce significant returns in the areas of cross-border trade and business development'.

Knowledge - its creation, dissemination and exploitation - is the key to unlocking the potential of trade and business development. InterTradeIreland's strategic framework is built on the use of knowledge to accelerate trade and business development across the island economy.

One of InterTradeIreland's key strategic goals is 'to develop the capability of businesses to trade within the island economy by increasing the quality and quantity of knowledge and information on the dynamics of cross-border trade and business development', in our corporate terminology to increase knowledge capital.

The 'InterTradeIreland policy research series' (IPR) is designed to contribute to the achievement of this objective by creating a bank of knowledge capital that will guide policy makers, inform business decisions and stimulate a wider debate on the benefits of North/South economic co-operation.

DISCLAIMER

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DEVELOPING ALL-ISLAND AIR SERVICES ON THE ISLAND OF IRELAND

PREPARED FOR INTERTRADEIRELAND BY

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We would also like to express our appreciation to all the consultees who gave of their valuable time to participate in this project.

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FOREWORD

InterTradeIreland's mission is to develop and expand trade and business on the island of Ireland. Globally, the economic achievements of the past 40 years have been driven by dramatic improvements in the cost and ease of transport and communication. These are the two vital tools of doing business today. Throughout the island of Ireland at our conferences, seminars, road shows and information events, business people tell us that the biggest handicap to developing cross-border trade is the time it takes to get to where you want to do business. Significant improvements have and are being made to the land-based transport infrastructure. However, if we are to genuinely open the island for trade, tourism and pleasure we need the kind of fast access which only air travel can deliver. It is inconceivable that in today's global environment, which is characterised by a web of inter-connectivity between the world's economies, business centres across the island remain isolated from each other in terms of fast and reliable access.

This report identifies a latent demand for cross-border air flights. Meeting this demand will require an imaginative mix of private action, public support and business participation. Ignoring it is not an option if the fullest potential of the island economy is to be exploited. In this regard, InterTradeIreland will continue to facilitate and support ongoing initiatives to improve speed of access across the island.

Martin Naughton,

CHAIRMAN, INTERTRADEIRELAND

ABSTRACT

The current limited availability of cross-border air services is a significant gap in the range of transport facilities vital for the support of cross-border trade and business development, recreation and tourism. This report identifies a latent demand for air flights between Northern Ireland and a range of locations in the Republic of Ireland particularly between Belfast and Cork/Dublin/Shannon. The report presents an overview of the financial viability of the most promising routes and outlines the contribution of Public Service Obligation (PSO) support and interline traffic for sector viability. Finally, the report makes a recommendation to the industry and the two governments for the development of a strategy to advance the case for island-wide air services.

EXECUTIVE SUMMARY

InterTradeIreland has identified the current limited availability of cross-border air services within the island of Ireland as a significant gap in the range of transport facilities of vital importance to cross-border business development.

Air transport promotes economic development. It increases competition in trade by enabling producers to access new markets and by allowing importers to enter home markets.

Authorities in Northern Ireland, while recognising many of the challenges current market conditions generate for the local business community, have adopted a non-interventionist stance in relation to the air transport sector. In contrast the governments of both Scotland and the Republic of Ireland have been very active in supporting the development of internal air networks.

Air transport services within the island of Ireland have had a chequered history particularly with respect to cross-border services. Routes linking Belfast to Dublin, Cork, and Shannon have all proved to be unsustainable for a variety of reasons, i.e. no revenue support available from government, cutbacks in the wake of the September 11th and operators unable to sustain reliable operations.

The survey (750 respondents) and consultations (43 respondents) carried out in developing this report revealed considerable demand for air services between Northern Ireland and a range of locations within the Republic of Ireland particularly between Belfast and Cork/Dublin/Shannon.

Consultations within the industry have assisted in developing figures minimum passenger traffic. Costs of operating an aircraft suggest an annual cost of £1.9-£2.0 million (€2.9-3.0 million). These figures suggest that, a yield of £100 (€150) return excluding taxes and other off aircraft charges, based on 40,000 carryings per annum.

Belfast-Cork - based on the construction of a business air travel propensity index total demand levels would imply that Belfast-Cork might generate a market of up to 63,000 passengers per annum.

The survey results highlighted that if travelling on a Belfast-Cork route Northern generated business travellers would be willing to pay up to £200 (€300) return and for Southern generated traffic the majority of respondents were not willing to pay more than £150 (€225) return.

Belfast-Dublin - the report suggests that on the Belfast-Dublin sector a market might exist for up to 100,000 passengers per annum point-to-point.

For the Belfast-Dublin route the evidence implies that passenger revenue would be maximised at business fares between £70 (€100) and £100 (€150) return for suitably timed services.

Belfast-Shannon - the report suggests existence of a smaller market between Belfast and Shannon. This is a function of the overall scale of business in that area and current level of business connections between Belfast and Shannon compared to that between Belfast and Cork.

However, the propensity index does not take into account the additional demand that may result from intra-Ireland or international interlining at Dublin Airport or Shannon.

In marked contrast to a Belfast-Cork route both Belfast-Shannon and Belfast-Dublin have very considerable potential for generating interline traffic. The potential for interlining at Dublin relates not only to international travel to mainland Europe and North America but also "mini-hubbing" within the island. Shannon could represent a more attractive transit point for Northern Ireland traffic originating/destined for North America and the Middle East.

Undoubtedly, the creation of a mini-hub operation at Dublin/Shannon would not afford as an attractive routing as a direct service. However, the attractiveness of Dublin/Shannon as potential mini-hubs for Northern Ireland has grown as links from Belfast to international destinations via Heathrow and other airports in Great Britain have weakened because of the curtailment of British Airways services out of Belfast International.

There is a significant gap in the range of transport facilities of vital importance to cross-border business development. Results of the survey, consultations and economic analysis shows potential for a commercial service Belfast-Dublin, potential for Belfast-Cork possibly with PSO support and lesser demand for a Belfast-Shannon route (requiring PSO support) which could be supplemented by interlinking travel. The attractiveness of such services both for point-to-point and interlining traffic would critically depend upon timings and frequency. Therefore, we recommend the development of a strategy to advocate that both the industry and the two governments investigate the potential seriously.

CONTEXT AND TERMS OF REFERENCE

InterTradelreland has identified the current limited availability of cross-border air services within the island of Ireland as a significant gap in the range of transport facilities of vital importance to cross-border business development. It embarked on a programme of consultation and set up an advisory board with representation from airlines, airports, businesses with a strong interest in the demand for air transport, and other interested bodies such as the IBEC-CBI Joint Council. Among routes which emerged as being of particular interest to the business community were Belfast-Cork and Belfast-Shannon. However, it was anticipated that these would probably require subsidy under the so-called Public Service Obligation (PSO) arrangements permitted under EU legislation. InterTradelreland also commissioned an island-wide survey undertaken by MORI/MRC with a view to identifying the latent demand for air services connecting airports in Northern Ireland with those in the Republic of Ireland. Subsequently, InterTradelreland identified an additional requirement for a more in-depth economics based assessment of the potential of such routes. This was undertaken by the **National Institute for Transport and Logistics (NITL), the Transport Research Institute - Northern Ireland Centre (TRI-NIC), Queen's University of Belfast and Mr John Kenna.**

The terms of reference for this exercise provide for:

- The theoretical and empirical evidence on the role of air transport in promoting regional economic development; and economic development infrastructure, and related public policies on the island of Ireland with particular reference to the role of air transport;
- The regulatory framework governing air transport on the island of Ireland;
- A SWOT analysis of intra-island air services;
- Lessons from other locations/areas;
- Overview of potential implications of low-cost airline operations for intra-island air services;
- Identification of potential point-to-point passenger flows based on the MORI/MRC survey and consultation process with potential business users; and
- Identification of the way forward, encompassing:
 1. Potential contribution of interline traffic for sector viability;
 2. Overview of financial viability of the most promising routes;
 3. PSO designation and public subsidy: applicability and potential contribution to route viability;
 4. Assessment of wider economic and social impacts of most promising intra-island air services; and
 5. Developing a strategy to advance the case for island-wide air services.

InterTradelreland and the advisory board are also conscious of the potential implications of outcomes of the study for East-West links between the island of Ireland and Great Britain.

1 DRI-WEFA Inc, 'The National Economic Impact of Civil Aviation' (A paper produced in collaboration with The Campbell-Hill Aviation Group, Inc., 2002)
 2 European Conference of Ministers of Transport (ECMT) Committee of Deputies, *Transport and Economic Development, Conclusions of Round Table, 119 (2001)*.
 3 Ibid.

EVIDENCE ON THE ROLE OF AIR TRANSPORT IN PROMOTING REGIONAL ECONOMIC DEVELOPMENT

Key lessons from theory and evidence

Air transport is a key catalyst for economic growth. It integrates the world economy and promotes the international exchange of people, products, investments and ideas. While its importance to the global economy may be obvious, its significance to small communities cannot be understated. A recent study of the impact of civil aviation in the US noted: "Indeed, to a very large extent, civil aviation has enabled small communities and rural populations to enter the mainstream of global commerce by linking such communities with world-wide population, manufacturing and cultural centres."¹

Economists argue that changes in transport supply (of whatever kind) can foster development in two ways:

- In the goods market, transport enhances the efficiency of the economic system because it increases competition. Transport facilitates trade and commerce by widening the area of goods markets, which in turn leads to greater competition.
- In the employment market, increasing transport speeds has the same effect as increasing the size of the employment market within a given region, in that a greater number of job seekers will be able to travel to jobs located further away. The increased size of the employment market has a positive impact on the productivity of urban centres, because it means that employers have a better chance of finding employees perfectly qualified for the jobs they are seeking to fill.

The benefits can be stated in theoretical terms, however "economic theory does not adequately describe the causal links between transport and economic development"². That is true both for the passenger market and the goods market. The upshot is that though politicians tend to justify the increased investment in transport in terms of the economic development it encourages regional development does not depend solely on investment in transport. In fact, the causal link between the two is quite weak. The relationship between investments in transport infrastructure generally and economic growth shows a levelling off in growth when a certain investment threshold has been reached.

It is a point of conjecture as to whether the island of Ireland, for example, has invested so much particularly in its air transport system that additional spending would only have a very marginal effect. Certainly, the view of a gathering of EU experts on transport investments generally was somewhat cautious about the value of new transport investment in increasing economic productivity.

Although the issue was debated at some length, the overriding opinion of the experts at the Round Table was nonetheless to the effect that improvements in transport systems did not induce specific effects capable of systematically increasing the production of a region.³

A study⁴ sponsored by the UK air transport industry and the then UK Department of the Environment, Transport and the Regions (DETR), argues that aviation is a key UK growth sector, and one that is vital to other growth sectors, such as the knowledge-driven economy and banking/financial services: in the era of globalisation, efficient transport linkages are seen as fundamental to firms' investment decision-making. The report outlined that, in total, some half a million jobs in the UK are related in some way to air transport, and presents evidence that any curtailment of air transport's growth would strongly disadvantage the UK economy. For instance, assuming a 4 per cent annual growth in passenger traffic to 2015, a reduction of 25 million passengers per year would imply that by 2015 GDP would be around nearly £4 billion a year lower (in 1998 prices). Graham (2000) echoes the European Conference of Ministers of Transport (ECMT) in commenting that the relationship between airports and regional economic development and regeneration is poorly understood, not least because of the multiplicity and spatial variability of factors involved in these processes.

The impact of air transport investment may not be clearly understood but it is real enough. Regional airports and air services affect regional economies in three ways: firstly, they operate directly as employers; secondly, they function as catalysts for other on-site economic activities, which can be aviation-related, but, may be businesses attracted; and finally, they function as regional economic multipliers. It is exceptionally difficult to measure the degree of embeddedness of an airport in its local economy and to assess the supply linkages and chains to the local economy and employment. It seems logical, however, to argue that smaller regional airports are much less capable of stimulating additional jobs in their regions (Graham, 2000).

To a great extent, no matter how much investment is poured into the development of airports, their usage comes down to decisions made by airlines. Unfortunately, while a region needs dependable connections, there is a tendency for churn (rapid turnover in the operation of routes) to occur in the provision of routes. This is partly because the strategies of large airlines do not necessarily align themselves with the needs of regions. On top of that there is the danger of smaller carriers going out of business in what is a high-risk industry.

The Standing Advisory Committee on Trunk Road Assessment (SACTRA) is also cautious about putting too much emphasis on transport as a way to boost economic activity⁵. Economic growth and competitiveness result from investment and innovation and the incentive structures that support these activities. Current UK Department of Trade and Industry (DTI) thinking emphasises the roles of capabilities, collaboration and markets free of monopoly in promoting competitiveness and therefore economic growth. Transport interventions have some impact on each of these aspects but other non-transport policy levers may be more important, especially in a country already possessing a well-developed transport infrastructure.

Another perspective in interpreting the impact of transport on the economy is that our understanding of what drives economy is not adequate. Economists have long been concerned with assessing the links between changes in the transport sector and the evolving patterns of economic development within the area served. While the importance of transport in economic growth and development has never been seriously questioned, its exact role and influence have been subject to periodic reappraisals. The underlying problem is, however, a more general one in that our understanding of what causes economic development is poor.

4 Oxford Economic Forecasting (OEF), *The Contribution of the Aviation Industry to the UK Economy (1999)*.

5 SACTRA, *Transport and the Economy (1999)*.

Review of the air travel industry and relationship to the economies on the island of Ireland

While academic literature makes it very clear that our understanding of the mechanisms which connect transport and the economy are quite limited, nevertheless there are some undisputed benefits, which arise from the sector and air transport in particular. They were identified in the UK government's recent consultation paper on Northern Ireland's air travel.⁶ In 2001, around 180 million passengers passed through UK airports; around 4.6 million of these used Northern Ireland's major airports.

Propensity to Fly (PTF) is one way to measure a region's readiness to embrace air travel for economic and other reasons. In simple terms, PTF is defined as the number of return air journeys made per head of the population. It is therefore an important indicator of the region's access to air services, and of the economic and social benefits they provide. As measured in the consultation document, PTF for Northern Ireland is more precisely defined as the number of return air transport trips made through a UK airport, as part of a journey with its ultimate origin or destination in Northern Ireland, divided by the population of Northern Ireland. It includes journeys through both Northern Ireland and other UK airports and has been calculated using UK planning regions, as defined by the CAA.

The average PTF for the UK as a whole is 1.26, representing just over one return trip per person each year. At 1.44, the PTF for Northern Ireland is above the UK average, ranking joint third with the south-east of England. It equates broadly to 1 1/2 return air trips a year by each resident of Northern Ireland. This can be attributed to Northern Ireland's geographical position and the many domestic flights serving both a business and Visiting Friends and Relatives (VFR) market. Moreover, most of the population in the North has relatively easy access to airports, two in Belfast airports - Belfast International and Belfast City and one in the North-West - Derry City Airport, even though much of the region is rural. However, although the PTF calculated by the UK government includes passengers from the Republic of Ireland using airports in Northern Ireland, it does not take account of Northern Irish passengers who fly from airports in the Republic of Ireland. These flows are significant and, in consequence, actual PTF in Northern Ireland is probably slightly higher than 1.44. Despite this, the PTF is perhaps lower than might be expected when compared to Scotland, as the distance from London is similar but Scotland has better surface-access alternatives, which reduce the dependence on air services for domestic travel and hence tend to lower PTF. This smaller-than-expected PTF may be due in part to the lower level of economic activity in Northern Ireland, particularly inbound tourism.

The estimated PTF figure for the Republic of Ireland has been calculated using Department of Transport's airport statistics for Dublin, Cork and Shannon airports and official estimates of the Irish population.⁷ This suggests an index of 2.36, some 64% higher than the North and 87% greater than the overall UK figure, highlighting the mobility enjoyed by people in the Republic compared to either Northern Ireland or the UK as a whole, together with the openness of the modern Irish economy.

6 Department of Transport: *The Future Development of Air Transport in the United Kingdom: Northern Ireland (2002)*.

7 Department of Transport (Ireland), *Airport Statistics extracted from Regional Analysis of Passenger Movements (2001)*.

Within Northern Ireland, the overall annual average growth in air traffic has been much below the UK regional average. It has been fastest at City of Derry (13 per cent), although from a very low base, and Belfast City also grew faster than the overall regional average for Northern Ireland. Belfast International had the greatest growth in actual numbers, with a rise of nearly 1 million passengers over the decade. However, in 2001, British Midland (bmi) transferred the majority of its services from Belfast International to Belfast City and, following September 11th, British Airways (BA) withdrew its Belfast International Airport-Heathrow service. It is therefore likely that in 2002 Belfast City will continue to see high growth, while Belfast International Airport may see slower growth than in recent years.

Nonetheless, low cost airlines have recently secured the major share of the air travel market to/from Northern Ireland. Today they provide almost 100 per cent of scheduled capacity to/from BIA. Indeed easyJet is now the largest carrier in Northern Ireland and caters for some three-quarters of scheduled traffic through Belfast International.

The principal providers of full service scheduled services from Northern Ireland are the British Airways (BA) subsidiary BA CitiExpress, British European (BE) and bmi. BA operates from Belfast International to Birmingham; BA CitiExpress offers services from Belfast City to Edinburgh, Glasgow, Manchester and Southampton; and BE also operates from Belfast City to Birmingham (and to Paris), Bristol, Gatwick, Leeds-Bradford, London City, the Isle of Man and Newcastle.

In 2000, Belfast International was the fifth largest UK regional passenger airport behind Manchester, Birmingham, Glasgow and Edinburgh, and the ninth largest of all UK airports. Belfast City was thirteenth among regional airports and eighteenth in the UK. Until recently the City of Derry airport wasn't ranked amongst the largest regional airports modelled. However, rapid growth, as a result of the introduction of a Ryanair service to Stansted (in 1999), has increased traffic to the extent that it is now ranked nineteenth of all UK regional airports and twenty-eighth of all airports in the UK

There is very little direct international scheduled traffic from Northern Ireland airports. Around 90 per cent of what does exist is handled by Belfast International on the easyJet service to Amsterdam. Growth in international scheduled traffic at Belfast International has been steady over the last decade, although at a lower rate than the UK regional average. The low level of international scheduled traffic from Northern Ireland may partly reflect competition from Dublin, which offers a wider range of services, attractive exchange rate and tax advantages, and access by surface transport. Moreover, the vast majority of passengers have at least until recently accessed international scheduled services by interlining at UK hubs, particularly Heathrow. In 2000, the CAA estimated that some 30 per cent of passengers travelling from Belfast to Heathrow made onward connections to other services. The potential for Heathrow as a hub for Northern Ireland traffic has been severely curtailed since October 2001 with the severe cutbacks in capacity between Belfast and Heathrow.

By 2000, 'international' scheduled traffic had fallen at City of Derry due to the loss of a route to Dublin in 1996. This has subsequently been replaced with a twice-daily Dublin service provided by Loganair. There are no direct international scheduled services from Belfast City. Since September 11th, Northern Ireland's only long haul scheduled service to the US, from Belfast International via Shannon, together with the direct route to Brussels, have been lost, leaving Amsterdam as Northern Ireland's only international scheduled service. This too now faces cutbacks.

Forecasts for Northern Ireland show that demand for air travel could rise to around 13 million passengers per annum but that this level is affected by whether or not capacity is provided in the south-east of England. While the events of September 11th have appeared to dampen down expectations about the continued high growth of the aviation industry, it has been argued that an examination of historic data shows that traffic growth has always returned to long run average trends following such events.

The trends in air traffic through airports in the Republic of Ireland exhibit an even greater level of growth. Tables 1-4 are derived from Aer Rianta's Regional Analysis of Passenger Movements, captured in the Department of Transport's Airport Statistics.

**TABLE 1:
OVERALL REGIONAL ANALYSIS OF PASSENGER MOVEMENTS
THROUGH PRINCIPAL AIRPORTS IN THE REPUBLIC OF IRELAND**

YEARLY TOTALS				
OVERALL	1998	1999	2000	2001
N. America	1,223,028	1,462,696	1,649,490	1,616,680
Britain	8,276,664	8,725,929	9,122,184	9,127,224
Europe	3,821,266	4,541,645	5,362,301	6,012,375
Domestic	931,247	1,054,252	1,135,951	1,121,304
Sub-total	14,252,205	15,784,522	17,269,926	17,877,583
Transit	544,127	707,647	662,014	636,447
TOTAL	14,796,332	16,492,169	17,931,940	18,514,030

SOURCE: Extracted from Department of Transport, Airport Statistics (1998 - 2001)

**TABLE 2:
REGIONAL ANALYSIS OF PASSENGER MOVEMENTS FROM DUBLIN**

YEARLY TOTALS				
DUBLIN TO:	1998	1999	2000	2001
N. America	674,328	829,759	966,451	939,329
Britain	6,919,221	7,226,495	7,419,183	7,438,259
Europe	3,384,545	3,989,831	4,644,792	5,169,717
Domestic	539,444	610,962	661,062	656,834
Sub-total	11,517,538	12,657,047	13,691,488	14,204,139
Transit	123,562	144,984	152,040	129,416
TOTAL	11,641,100	12,802,031	13,843,528	14,333,555

SOURCE: Extracted from Department of Transport Airport Statistics (1998 - 2001)

**TABLE 3:
REGIONAL ANALYSIS OF PASSENGER MOVEMENTS FROM SHANNON**

YEARLY TOTALS				
SHANNON TO:	1998	1999	2000	2001
N. America:	548,559	632,790	682,743	677,068
Britain	557,117	609,587	751,176	714,285
Europe	170,475	221,089	317,264	363,251
Domestic	158,425	182,070	164,665	158,362
Sub-total	1,434,576	1,645,536	1,915,848	1,912,966
Transit	405,432	542,628	492,404	491,692
TOTAL	1,840,008	2,188,164	2,408,252	2,404,658

SOURCE: Extracted from Department of Transport Airport Statistics (1998 - 2001)

**TABLE 4:
REGIONAL ANALYSIS OF PASSENGER MOVEMENTS FROM CORK**

YEARLY TOTALS				
CORK TO:	1998	1999	2000	2001
N. America	141	147	296	283
Britain	800,326	889,847	951,825	974,680
Europe	266,246	330,725	400,245	479,407
Domestic	233,378	261,220	310,224	306,108
Sub-total	1,300,091	1,481,939	1,662,590	1,760,478
Transit	15,133	20,035	17,570	15,339
TOTAL	1,315,224	1,501,974	1,680,160	1,775,817

SOURCE: Extracted from Department of Transport Airport Statistics (1998 - 2001)

The overall figures exhibit a continued rise in air travel. However, much of the increase relates to Europe (excluding Great Britain), while internal travel designated 'domestic' has been largely stagnant in recent years.

Dublin Airport catered for almost 15.1 million passengers in 2002. This represents a 5 per cent increase on 2001. Airlines operating from Dublin Airport served 46 charter and 74 scheduled destinations. Passenger numbers between Dublin and the UK rose by 6 per cent to 7.9 million, accounting for over half of Dublin's total traffic in 2002. Dublin Airport's second biggest market - Continental European - grew by 9 per cent during 2002 and surpassed the 5.6 million mark. Growth was strong in both scheduled and charter segments. Transatlantic traffic continued to be affected by the impact of post- September 11th and slowed economic activity, witnessing a fall of 15 per cent. The numbers travelling on domestic flights out of Dublin remained relatively similar to 2001 at 650,000.

Shannon maintained traffic levels in 2001. The airport is one of only two transatlantic gateways on the island of Ireland for scheduled services. Transit traffic between North America, and Europe, which in the 1950s accounted for 90 per cent of all airport traffic, now accounts for 20 per cent of total airport traffic. Terminal traffic is still heavily dependent on the North Atlantic, but in recent years traffic from the UK and Continental Europe and the Middle East have been increasing.

Scheduled traffic on the North Atlantic is carried by six airlines, Aer Lingus, Delta, Continental, Aeroflot, Royal Jordanian and Air Canada, to eight nine destinations, New York, Boston, Atlanta, Chicago, Newark, Detroit, Los Angeles, Amman and Toronto. On the Shannon-UK route, London Heathrow and Stansted are the primary destinations and are served by Aer Lingus and Ryanair respectively. BA Cityexpress and British European Flybe (BE) operate the only services to UK provincial points on a daily basis to both Manchester and Birmingham. This has been Shannon's fastest growing traffic sector in recent years. European scheduled services are operated by Ryanair to Frankfurt Hahn, Beauvais and Charleroi, and by SkyNet airlines to Amsterdam (which commenced in June 2002).

During 2001 Cork airport handled, a total of 1.775 million passengers, a 6 per cent increase on 2000. A total of 17 scheduled destinations were served by 10 airlines. Of the four markets, only the domestic market declined slightly on 2000 levels, the UK market returned a level performance and the European market grew by 20 per cent. In 2001, 974,727 passengers travelled on UK routes. A total of 13 destinations were served by eight airlines. The London market accounted for 79 per cent of all UK traffic, grew marginally by 2 per cent and carried a total of 767,450 passengers. The UK provincial market had modest growth of 4 per cent with a total of 207,277 passengers carried on 10 scheduled routes.

The European scheduled market, which consists of Amsterdam, Frankfurt and Paris, was up by an impressive 20 per cent for the year. The introduction by Aer Lingus of a second daily Amsterdam service resulted in passenger numbers on the route increasing by 37 per cent. Amsterdam accounted for 49 per cent of the total European scheduled market.

In 2001, the domestic market in the Republic of Ireland decreased by 1 per cent and carried a total of 306,108 passengers. In 2000, Aer Arann entered the domestic market and carried 15,300 passengers. In responding to the growing demand for more frequency and extra capacity, 2001 saw their figures almost treble that of the previous year.

The figures for regional airports tend to reflect their role in domestic air travel (see Tables 5-8).

**TABLE 5:
GALWAY AIRPORT PASSENGER FIGURES**

YEARLY TOTALS								
	1993	1994	1995	1996	1997	1998	1999	2000
Arrivals	18,677	19,487	26,986	28,623	28,491	34,769	38,635	42,053
Departures	19,049	19,093	26,705	28,096	28,268	34,542	38,467	41,179

SOURCE: Galway Airport provided by Galway Chamber of Commerce and Industry

**TABLE 6:
KERRY AIRPORT PASSENGER FIGURES - INBOUND AND OUTBOUND**

YEAR	TOTAL
1989	39,920
1990	84,459
1991	54,095
1992	46,791
1993	21,428
1994	38,201
1995	76,965
1996	89,410
1997	123,601
1998	157,173
1999	167,682
2000	157,000

SOURCE: Kerry Airport Website - www.kerryairport.ie

**TABLE 7:
KNOCK AIRPORT PASSENGER FIGURES (1995 - 2000)**

YEAR	1995	1996	1997	1998	1999	2000
Passenger nos:	137,912	161,435	172,070	186,689	205,000	188,000
Percentage change	—	17%	7%	8%	10%	-8%

SOURCE: Department of Public Enterprise 2001

Total passenger throughput at Knock Airport in 1998 was 186,689, up 8 per cent over that of 1997. Total passengers were 205,000 for 1999, an increase of about 9 per cent over the comparative figure in 1998. Passenger numbers for 2000, at 188,000, are down about 20 per cent on the previous year.

**TABLE 8:
DONEGAL INTERNATIONAL AIRPORT PASSENGER FIGURES (1994 - 2001)**

YEAR	1994	1995	1996	1997	1998	1999	2000	2001
Passenger nos:	7,860	8,900	14,200	21,700	15,120	23,143	20,653	22,234

SOURCE: CSO and Airport Operator 2001

In both the Republic of Ireland and Northern Ireland, aviation makes a significant contribution to the economy and social welfare. Air services are the only realistic means of reaching many international destinations and are also the only means of travelling to other parts of the UK quickly and conveniently. Business passengers, especially those in 'knowledge-based' sectors, and leisure passengers therefore make substantial use of air travel for domestic as well as international journeys.

Air services have a vital role in reducing travel times, increasing accessibility and therefore improving economic efficiency and productivity. They serve an important purpose in attracting inward investment, particularly from overseas, and help to stimulate and sustain the growth of local businesses by opening up new markets and supply chains. In Northern Ireland alone, air services support over 3,500 jobs directly and a further 6,400 indirectly in other parts of Northern Ireland's economy. The estimate does not include, however, the number of jobs created, for example, in the tourist industry, mediated through the aviation industry. Even greater numbers are employed in the Republic of Ireland.

In Northern Ireland, aviation itself is currently estimated to add over £10 billion (€15 billion) to the UK economy, accounting for around 1.4 per cent of GDP, and £0.2 billion of value to the regional economy each year, accounting for 1.3 per cent of GDP. These figures are expected to rise significantly over the next 30 years. No figures were readily available for the Republic of Ireland.

In summary

Air transport promotes economic development. It increases competition in trade by enabling producers to access new markets and by allowing importers to enter home markets. Aviation also performs much the same role in the labour market. The impact of air links is particularly important for regions at some remove from large centres of population.

The provision of services at a number of regional locations has presented a number of important benefits, both for the national and regional economies. The most significant benefits will be enjoyed by additional users who are able to use airports of convenience rather than being diverted to other airports or not being able to travel by air at all and by existing users who will benefit from a wider range of destinations and an increased number of destinations.

Nevertheless, it is a matter of judgement whether either jobs or productivity in Northern Ireland can be improved by adding to the present base case level of air services. Studies suggest that for any given economy there may be an appropriate level of transport services above which no significant improvement can be achieved. Economists, however, are not specific about where that 'natural' peak may lie. It may be that we have sufficient links for our present economic needs. If that conclusion is wrong, however, and there is scope and justification for further services, these new air links could come about through new market-generated competition. Failing that, it may be that regional stakeholders have to take a proactive role in stimulating more activity through market research and route marketing.

Whatever the programme of action on air transport, it would clearly need to be part of an agreed and accepted UK regional and Irish aviation strategy. What part new cross-border routes could play in such a strategy would have to be decided after a thorough review of the potential demand for such links.

Theory does not provide conclusive evidence that to launch such routes would result in increased economic activity either North or South of the border. The decision to pursue such a course of action may come down to the collective hunch of those reviewing the situation and their ability to make things happen. It may be then, as with other areas of economic life, that after a matter of reflection the risk is taken without the guarantee of a sizeable return.

THE REGULATORY FRAMEWORK GOVERNING AIR TRANSPORT ON THE ISLAND OF IRELAND

Air transport, unlike most other transport modes within the UK is a matter reserved to the Westminster Parliament. The UK government has recently embarked on a national consultation on the long-term future of air transport, the emphasis of which is on capacity constraints and environmental tensions arising from the burgeoning market for air travel particularly in and through London and the south-east of England. In this regard, Northern Ireland is no different from other regions.

Nevertheless, the Northern Ireland Act 1998 devolved responsibility for a number of areas of policy relevant to aviation to the Northern Ireland Executive and Assembly. These include:

- regional land use planning;
- surface access policy and funding;
- environmental policy including designations under S78-80 of the Airports Act 1986; and
- responsibility for airport policy in Northern Ireland.

Powers are reserved by the UK government in respect of:

- international agreements;
- PSO and slot policy;
- safety and aerodrome licensing; and
- security.

The UK government is also responsible for preparing co-ordinated overall policy for UK airports, though it does so in discussion with relevant devolved administrations.

The Department for Regional Development (Northern Ireland) acknowledges that it has limited authority or even influence on air transport policy. The influence is further circumscribed by the fact that the two main airports have been either privatised or started from that position. Authorities here, while recognising many of the challenges current market conditions generate for the Northern Ireland business community, have adopted a non-interventionist stance in relation to the sector, perhaps reflecting their perception of a very restricted potential role.

In contrast, it is noteworthy however that Scotland and its devolved administration has adopted a much more interventionist approach to air transport, notwithstanding the fact that, in theory, its remit extends no further than that which the now-suspended Northern Ireland Executive possessed. Scotland has imposed PSOs on 12 air routes, making them eligible for subsidies. Currently a strong lobby is being mounted to have more air links designated, both on routes within Scotland and from Scotland to London, and to guarantee appropriate slots at Gatwick Airport.

The Irish government, which clearly has powers over aviation subject only to overarching EU regulations and directives or bilateral agreements, continues to adopt a much more interventionist policy stance. This is reflected, not only in the continued state ownership of Aer Lingus and the major airports, but also by the greater willingness, judging by Scottish and even European standards, to designate routes with PSO status and to subsidise them, both within the state and on the cross-border route between Dublin and the City of Derry Airport.

This is notwithstanding the emergence of, what has been until recently, Europe's largest low-cost carrier Ryanair, the activities of which continue to create tensions between a market interventionist strategy and market-led liberalisation of the air transport sector. However, the rapid development of the low-cost sector, both North and South, is not likely to have a significant direct effect on cross-border air services, although it is already having significant indirect effects on the viability of existing and potential future operations.

INTRA-ISLAND AIR SERVICES: CURRENT SITUATION AND EXPERIENCE

Overview

Air transport services within the island of Ireland have had a chequered history, particularly with respect to cross-border services. Routes linking Belfast and Dublin, Belfast and Cork, and Belfast and Shannon have each ultimately proved to be unsustainable. The erstwhile Belfast-Cork route, operated by what was then Jersey European (now BE), lasted only a short period, while its replacement operator was unable to sustain a reliable operation. Belfast-Shannon, a feeder for Aer Lingus transatlantic services, became a casualty of that airline's cutbacks in the wake of the September 11th atrocity. Belfast-Dublin saw a number of attempts over the years but they apparently always succumbed to road and rail competition. The current sole cross-border service together with the majority of internal routes within the Republic of Ireland receives generous financial support under PSO designation.

Public Service Obligations (PSOs)

Member countries of the European Union can impose PSOs on scheduled air services to remote communities or development regions where they believe such links are vital to the economic well-being of the area. They can also apply to cross-border routes. The assumption is that an airline, in the absence of a PSO, would not be able to sustain a comparable service to the airport purely on commercial grounds.

PSOs are widely employed across Europe. France particularly has used them to link, not just its main offshore island of Corsica, but also areas which are served by high-speed trains. The Republic of Ireland has also employed PSOs to support services to outlying areas. By contrast the UK in general appears less enthusiastic about their use. The exception, however, is Scotland where the Scottish Executive and island councils make extensive use of them to help the economies of the Western and Northern Isles. Northern Ireland's only experience of PSOs comes courtesy of the Republic of Ireland, which provides the subsidy for an air link between Dublin and the City of Derry Airport.

The Republic of Ireland

The Republic of Ireland has imposed PSOs on 6 routes, each radiating from Dublin. As already mentioned, one of these is a cross-border service to the City of Derry Airport. It is subsidised by the Department of Public Enterprise as are the others to Donegal, Sligo, Knock, Galway and Kerry.

MAP 1: PSO ROUTES FROM DUBLIN



All the services were until recently operated by Aer Arann Express, except for the route to Derry which is run by Loganair. More recently the Sligo and Donegal routes were operated by EuroCeltic Airways. These have now reverted to Aer Arann. PSOs provide around half of all the Republic's internal scheduled services and about a quarter of all seats.

TABLE 9: PSOs AND THEIR APPLICATION TO AIR ROUTES ON THE ISLAND OF IRELAND (2000)

ROUTE	PASSENGER NUMBERS (2000)	YEARLY SUBSIDY (2000) €'S	SUBSIDY PER PASSENGER €'S
Dublin to Donegal	12,400	632,000	51
Dublin to Sligo	24,400	546,000	22
Dublin to Knock	-	1,032,000	-
Dublin to Galway	72,300	852,000	12
Dublin to Kerry	78,600	598,000	8
Dublin to Derry	not available	not available	not available

SOURCE: Cranfield University Air Transport Group 2002

The Irish Government specifies certain levels of service, which the carriers have to observe. The aircraft have to have pressurised cabins, must be able to carry at least 30 passengers and offer maximum fares between £69 (€106) and £77 (€118). Many routes are required to have three round trips per day, arriving and departing within guidelines. For example, some services must offer travellers the option to leave home in the morning, do their business in Dublin and return home by night-time. The alternative to using the plane is coach or train, which would take between three and four hours compared with an hour or less by air.

The current PSO Programme which was planned to be expanded up to 2004 provides financial support of over £10 million (€15.3 million) for air services linking Dublin with the regional airports at Donegal, Galway, Kerry, Sligo, Knock and City of Derry. Under current arrangements, the City of Derry/Dublin PSO air service was initiated by Loganair during January 2001, facilitating closer links and cooperation between the North and South and, indeed, connections via Dublin. With the exception of the City of Derry service, all other services were to be operated by Aer Arann. In June 2002, the Transport Minister, announced that the non-cross-border PSO routes would be split between Aer Arann and EuroCeltic Airways Ltd. However, within the last two months the Irish government revoked EuroCeltic's contract to run the Sligo and Donegal services. The total Exchequer cost of providing air services on these routes over the next 3 years is estimated at £36.4 million (€56 million). There is increasing concern in the government about the rising level of subsidy to sustain these services.

In 2000 the subsidy per passenger ranged up to £51 (€78) on the service to Donegal. More recent figures given in response to a parliamentary question indicate that, over the three years of the current relevant contracts subsidy per passenger is expected to be: Donegal £114 (€175), Sligo £57 (€87), Knock £182 (€280), Galway £36 (€56), and Kerry £37 (€57). On the sole cross border route linking Dublin and City of Derry Airport the subvention in its first year of operation was estimated at £77 (€118).

A further analysis of selected routes illustrates the financial implications of PSO designation and route subsidy. The Exchequer subvention for the daily flight from Knock to Dublin, which commenced in February 2001, amounts to £1.3 million (€2 million) per year. This figure is based on fully costed airport charges and additional 'out-of-hours' charges. Knock Airport estimates that its total revenue from the PSO flight would be approximately £1 million (€635,000) in 2001. Based on Aer Arann's estimation of 4,000 to 5,000 passengers using the service in the first year, that would imply that the airport would recover over €127 per PSO passenger and the PSO would cost the Exchequer over €330 per passenger. However, a review of Knock Airport found that both the level of subvention and the level of airport charge per passenger are unsustainable in the long term. If a viable service is to be sustained the total cost per passenger should be reasonably in line with that charged to other air services from Knock and similar to the norm for equivalent services from equivalent airports.⁸

8 Department of Public Enterprise (Airports Division), *Review of Knock Airport (2001)*

LESSONS FROM OTHER LOCATIONS

Evidence has indicated that minimal support and intervention is provided within the UK. Ireland's position is much closer to what might be termed the European norm. Nevertheless, the Scottish experience offers both valuable lessons and a precedent for Northern Ireland within a UK framework, and points to an urgent requirement for a joint cross-border position to be adopted by both the Northern Ireland administration and the Irish government.

Scotland

Twelve routes in Scotland are designated PSO. They link communities within the main island groups: the Shetlands, the Orkneys and the Western Isles. In the case of the Western Isles, they offer a link to Glasgow. The routes are subsidised either by the Scottish Executive or one of the three island councils. The level of subsidy varies from around £20 (€31) per passenger to around £60 (€92). Loganair, which operates the Dublin-City of Derry link, runs nearly all of them. PSO services represent about a quarter of all internal scheduled flights and about a tenth of all seats on Scottish internal flights.

Service frequency is specified in all PSOs in Scotland but there is no timetabling requirement. No slots are reserved at Glasgow airport, which is the most congested destination on the PSO routes. Maximum one-way fares vary from £15 on the Orkney routes to £97 on the Glasgow-Barra route. The air service cuts down journey times significantly from, in the case of Glasgow to Barra, ten hours by ferry and rail, approximately, to one hour.

France

France is one country to have made extensive use of PSOs. This is in spite of the availability of a rail alternative. As one might expect, PSOs have been applied to routes linking the mainland with Corsica. Among the 33 services currently running, however, are a number operating from Paris to mainland towns in the Midi such as Rodez and Bergerac. Others tie Lyon with destinations on the West Coast.

PSOs account for one in seven internal scheduled flights and one in ten seats. Regional authorities rather than Paris carry out administration. Subsidies are partly financed by a levy of 1FFr on all passengers leaving French airports. It is not known just what routes attract subsidies.

The aim of the timetabling requirements and minimum frequencies is to allow travellers to leave home in the morning, do about eight hours business and fly home again that night. So about two round trips a day are specified for routes. As stated earlier, the availability of fast inter-city rail services has not deterred France from imposing PSOs on internal routes.

Germany

PSOs are applied to just five domestic routes in Germany, far fewer than in France. Most of the services are from Erfurt in the East of the country. The regional government provides the subsidies, which work out at £87 (€133) per passenger. Frequency of service is stipulated, as are timetables.

Like France, Germany is willing to impose PSOs where the train could offer a fast alternative. In the case of Erfurt, high-speed trains could take passengers to the destinations served by the PSO services in three to four hours compared with approximately one hour by plane.

Norway

Norway has more PSOs than any other European country. Sixty-one services are supported in this manner. While PSOs were only introduced in 1997, the country has been subsidising air links to remote areas for a long time. The case for the extensive network of PSOs rests mainly on the terrain of the country and the limitations of the railway network. In many cases it would take 8 to 12 hours to travel by coach or ferry compared with an hour or more on the plane.

Overall experience

In a number of cases PSOs have not been dispensed willingly by central government. They have been fought for by regional authorities who have lobbied hard for their introduction. Norway is a good example of a country where political pressure groups have ensured that PSOs not only keep routes viable but also operating at very high service levels with appropriate timetabling. The cost, of course, is high subsidies.

Germany, Italy and France ensure slots at busy or so-called capacity constrained airports for PSO services. The reservations are at Berlin, Frankfurt, Rome, Milan and Paris Orly. While the issue of slots may appear a theoretical one at this stage, it may not be long before PSO-supported services require landing rights at Dublin.

Though a criterion for establishing PSOs is peripherality, their existence in Germany and France, on routes served by good rail services, suggests there is some flexibility in the rules and regulations that could be exploited if one wanted cash support for air links across the border.

IDENTIFICATION OF POTENTIAL POINT-TO-POINT PASSENGER FLOWS BASED ON THE MORI/MRC SURVEY AND CONSULTATION PROCESS WITH POTENTIAL BUSINESS USERS

Preliminary observations

Forecasting demand for air travel poses major challenges not only for independent advisors but even the airlines and air transport industry generally. This is because of the wide range of factors involved, including background economic and socio-economic factors, competition on the sectors of interest, both carrier competition and alternative modes, as well as the opportunities afforded for interlining via hub airports to onward destinations. In the case of cross border air flights additional issues stem from the existence of more than one relevant national economy, including differentials in economic growth rates, variations in regulatory policy, and the pattern of control in the industry as between state ownership and the private sector.

In contrast to demand forecasting, the airlines have been in the forefront of developing revenue yield management systems, which are based on sophisticated algorithms for the distribution of a given supply of seating to a range of fare classes and levels. These are driven by reference to the pattern of demand exhibited by passengers over quite lengthy time series. Until 11th September 2001 this served airlines well. However, the effect of the atrocities on that day and the subsequent volatility in the marketplace, coupled with the surge in activity from low-cost airlines, have served to highlight how little is really known about the preferences and trade off consumers make when deciding whether to travel, how to get there and which carrier to take.

This provides the background to estimation of point-to-point passenger flows on cross-border routes within the island. The challenge is that much greater when there is no existing market on which to build future projections. In this case a number of primary and secondary data sources were available to inform an understanding of the potential market for passenger traffic on a range of cross-border sectors.

The former include, the consultation exercise undertaken by Mr John Kenna and the MORI/MRC survey of cross-border air travel potential commissioned by InterTradeIreland. Secondary data includes published and unpublished information collated by a variety of organisations including the Central Statistics Office (CSO), Aer Rianta, the CAA and the airline industry itself.

The consultation exercise undertaken by John Kenna

This exercise, which is reported in detail elsewhere, was undertaken to:

- Augment the findings of the user demand survey by consulting with businesses that trade Cross Border.
- Ascertain benefits and potential usage of proposed services.
- Seek their support for the project and Government /EU assistance.

The process-involved consultation with 33 firms (21 from Republic and 12 from Northern Ireland) and 10 agencies/organisations (a comprehensive list of consultees is provided in Annex 2). Interviews conducted at Chief Executive or Senior Manager level.

Development of all-island air services yielded 100 per cent support from those interviewed, and suggested that developing all-island air services are considered by business and agencies as a critical success factor in regional development. A strong view came across that Government/EU assistance would be essential to establish relevant services.

The consultation identified the following preferred services/routes

- **Belfast-Cork as the most important, with Belfast-Shannon to serve the mid-west and western regions albeit at lower volumes. Tourist interests in the Shannon Region need renewal of the Belfast link to increase North-South tourism potential.**
- **While Belfast-Dublin was not specifically included in the consultation process, some respondents considered routeing through Dublin to internal regional destinations such as Cork or Shannon but only in the absence of direct links. Dublin was potentially seen as a route to off-island points.**

Key recommendations arising from the consultation included:

- Governments must support initiatives to re-instate Belfast to Cork and Shannon direct links;
- EU support must be sought through PSO provisions to assist early development of services;
- Key providers, including airlines and airports, must be consulted in addition to potential users, to give them the opportunity to initiate appropriate actions;
- The importance of air transport in inter-regional development and the promotion of logistics throughout the island of Ireland must be presented; and
- Key recommendations to EU institutions such as the Commission, European Parliament, Committee of the Regions, Economic and Social Committee must be promoted.

The consultations demonstrated considerable interest in, the use of selected routes linking Northern Ireland and the Republic of Ireland. The research focused on companies requiring frequent contact between colleagues and customers situated in the North and South/South-west of the island. However, it is important to stress that, while this evidence provides insight into the requirements of key firms, even translating their intentions into assumed ticket purchases would not demonstrate existence of a viable market. The consultation findings would, of necessity, need to be repeated many times over if a viable level of business is to be proved to exist.

The MORI/MRC survey

The overall aim of the MORI/MRC research, commissioned by InterTradeIreland, was to assess demand for an extended all-island (in both Northern Ireland and the Republic of Ireland) air service network among business and tourism/recreational respondents. The MORI/MRC survey was undertaken throughout the island and was based on a quota sample weighted to emphasise areas around key geographical areas of interest such as the South and South-west. This survey was undertaken among business and tourist/recreational respondents to establish the demand for increasing air services. A different questionnaire was administered to each sector. These groups were:

- **Business** - 400 interviews were conducted with 250 businesses in the Republic of Ireland and 150 in Northern Ireland. The respondent was the person in the firm responsible for organising or booking travel for employees. The criterion for interview was that employees travelled 100 miles or more between two locations in Ireland for business purposes.
- **Tourist/Recreational** - 350 interviews were conducted with these respondents made up of 200 in the Republic of Ireland and 150 in Northern Ireland. The criterion for respondents was that they travelled 100 miles or more between two locations in Ireland for recreational or tourism-related activities.

The survey found that respondents in each of the surveys (business and tourism/recreational) made frequent visits of over 100 miles within Ireland. Those in business made a larger number of trips, with more than a quarter of respondents indicating that employees in their organisation would undertake more than 100 trips between two destinations in Ireland each year. On the recreational/tourism side, almost one in five respondents stated that they would make 11 or more trips between two locations 100 miles apart in Ireland per year.

Some 40 per cent of respondents in the business survey indicated that employees used the plane to travel to destinations in Ireland at least 100 miles apart, with the Dublin-Cork and Dublin-Shannon routes the most commonly used. The research suggests demand among businesses for air routes between Belfast and Cork and Belfast and Dublin. There was a significant, if lower, level of demand for an air route between Belfast and Shannon.

The Belfast-Cork route was popular among respondents from both destinations, while a prospective Belfast-Dublin route was more popular among respondents for whom the nearest airport was Belfast than those whose nearest was Dublin. 43 per cent of the former indicated that employees would be likely to travel to Dublin if such a route was available, but the figure was less for those indicating employees would be likely to travel the other way (Dublin to Belfast). 38 per cent of those whose nearest airport was Belfast indicated that employees would be likely to travel from Belfast to Cork if such a service existed; there was a similar demand for a Cork/Belfast service among those whose nearest airport was Cork. There was a lower, but still significant, demand for a Belfast/Shannon route among businesses located near each destination.

Those who indicated that employees would be likely to travel on a particular route were asked how many trips employees would be likely to make on this route per year. From respondents whose nearest airport was Belfast, 10 respondents indicated that employees would make more than 50 trips on a Belfast/Dublin route. Four and two respondents respectively, whose nearest airport was Dublin, indicated that employees would make more than 50 trips on the route. For the Belfast and Cork route, two respondents whose nearest airport was Belfast, and three whose nearest airport was Cork, indicated that employees would be likely to make more than 50 trips between the two destinations. For the Belfast-Shannon route, a sizeable proportion stated that it would be likely for employees to make 11-50 trips per annum.

Moving on to recreational or tourism respondents, the numbers who used the plane to travel within Ireland was much less (just 3 per cent). For tourist and recreational users, the number of individuals likely to travel by air to locations 100 miles or more away from their home was even less.

The MORI/MRC survey has revealed considerable interest in the possibility of flying between Northern Ireland and a range of locations within the Republic of Ireland. This complements the consultation evidence also collated as part of the InterTradeIreland initiative on cross-border air services.

The findings from the MORI/MRC survey do provide evidence of the pattern of business and leisure travel based on a substantial data set. However, the formats of the questions do not lend themselves to direct estimation of market forecasts. Nevertheless, answers to key questions encompassing origin-destination movements, and stated likelihood of using specified air services in principle and at different fare levels, do offer the prospect of generating broad brush estimates of market potential.

These are of particular value when taken in conjunction with revealed preference data or observed data on passenger flows or supply side indicators. This suggests the possibility of creating an index of propensity to use a given air service which might be validated by observed data where that is available for an existing route.

The Air Travel Propensity Index for cross-border services

It was therefore decided that construction of a propensity index and estimation of index values for a variety of routes could enable an estimate of potential point-to-point flows to be derived. In developing a propensity to use index we must take account of the sample design employed in the execution of the MORI/MRC survey. If we assume that the survey findings are reasonably representative of each county/airport catchment area, then by weighting the survey by a measure of the scale of business activity in each of the counties/catchment areas, it should be possible to derive a measure not only of the propensity of businesses in any one area to travel by air to any other location on the basis of an assumed frequency and fare level, but also to scale that index to reflect the size of the business community.

A weighted index of business travel by air was defined on this basis, drawing on data provided by InterTradeIreland on business numbers in each of the catchment areas. The functional form of the index is as follows:

PROPNESITY FOR BUSINESS TRAVEL BY AIR BETWEEN I AND J AT A GIVEN FARE =

F (scale of business activity in origin airport catchment area i, business trips between origin i and destination j, likelihood of journey by air by fare level between i and j, availability of competitive alternatives between i and j)

where i = origin j = destination

A similar index can be constructed for leisure travel. However, as the primary focus of this research is on establishing the viability of an air service to support intra-island trade and business, the emphasis in this report is on business travel. Moreover, an examination of the MORI/MRC survey, in conjunction with information on the size of business activity, suggests that the routes with most potential as direct services are Belfast-Cork and Belfast-Dublin. The tables below provide a summary of index values for relevant routes, based on the MORI/MRC survey evidence, in conjunction with data on business activity. The index values are based on an implicit assumption of a double daily return service.

**TABLE 10:
POTENTIAL POINT-TO-POINT PASSENGER PROPENSITY INDEX VALUES
BASED ON MORI / MRC SURVEY**

RETURN FARE:	£200	£150	£100		£200	£150	£100
DUBLIN TO				CORK TO			
BMA(Antrim)	7	22	33	BMA(Antrim)	11	17	26
BMA(Down)	1	3	5	BMA(Down)	8	12	19
Dublin				Dublin	8	43	140
Cork	21	30	100	Cork			
Limerick	8	16	35	Limerick			

BMA refers to Belfast Metropolitan Area

**TABLE 11:
POTENTIAL POINT-TO POINT PASSENGER PROPENSITY INDEX VALUES
BASED ON MORI/MRC SURVEY**

RETURN FARE:	£200	£150	£100
BMA ANTRIM TO			
Dublin	40	42	100
Cork	15	22	38
Limerick	2	3	6

Ireland's economy has been the fastest growing in Europe, and overseas business investment has been instrumental in the success of Ireland's 'Celtic Tiger' economy. According to the recently released OECD Economic Outlook (June 2002), Ireland's economy is expected to grow by 6.3 per cent in 2003. With Ireland expecting rebounding GDP growth rates in 2002, the prospects for a significant improvement in business-related travel in the near term appear strong. According to PricewaterhouseCoopers' Northern Ireland Economic Review & Prospects 2001, Overall GDP growth in Northern Ireland in 2001 was 2.1%, just below the UK growth of 2.2%.

This evidence suggests that a Belfast-Cork route could realise approximately 25 per cent of the market currently existing between Dublin and Cork, if a similar proportion of business to leisure travel were generated on the former that is currently enjoyed by the latter. The tables also suggest the existence of a smaller market between Belfast and Shannon. The figures in the table are a function of the overall scale of business in that area and the current level of business connections between Belfast and Shannon compared to that between Belfast and Cork. However, the figures do not necessarily reflect the composition of business or indeed the prior existence over a period of some years of a Belfast-Shannon service. Aer Lingus operated the Shannon-Belfast route as an extension of its transatlantic service from New York to Shannon but withdrew this service post-September 11th 2001.

Almost 50 per cent of overseas investment in Ireland is located in the West as measured by employment. Not only does the West of Ireland enjoy a disproportionate share of this investment with respect to the country's total population, but the immediate Shannon region, Clare and Limerick counties rank among the top three counties in Ireland with the highest concentration of employment by US owned companies per capita.

The Shannon Free Zone adjacent to the airport is one of Ireland's largest industrial parks and has the largest cluster of North American investment in Ireland. Shannon Airport's unique role in aviation, a peripheral airport that also serves as a transatlantic gateway, has helped Ireland achieve a more geographically-balanced distribution of economic activity. Even if the survey analysis does not reflect such a favourable situation, Aer Rianta Shannon is confident that an attractive opportunity exists to re-introduce a scheduled air service between Shannon and Belfast. The following table is a summary of the performance of the Shannon-Belfast route since 1995.

TABLE 12:
AER LINGUS PASSENGER TRAFFIC, SHANNON - BELFAST (1995 - 2001)

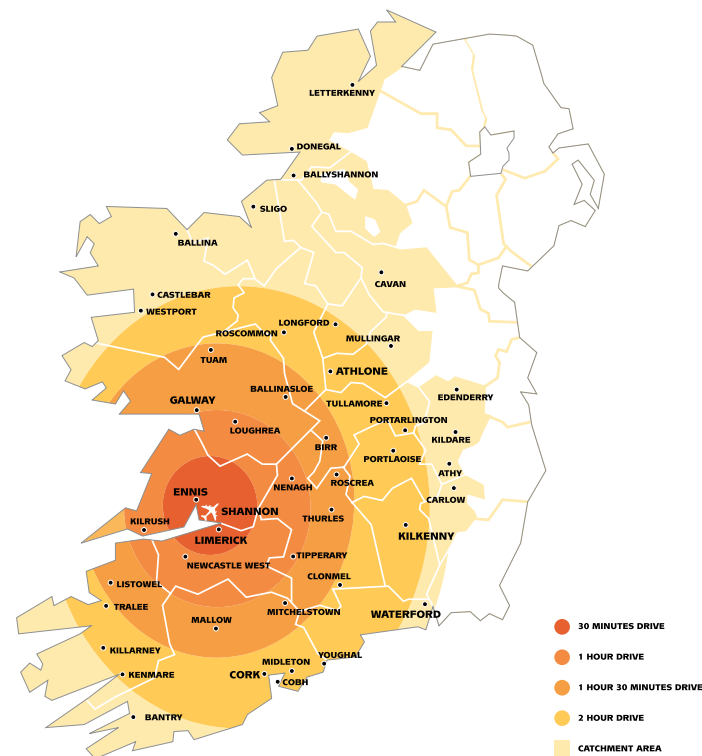
YEAR	O&D	% DIFFERENCE
1995	9,241	
1996	22,603	+145%
1997	22,368	+1%
1998	21,205	-5%
1999	26,676	+26%
2000	19,390	-27%
2001	23,556	+21%

- 2000 reduced frequency in 2000 vs 1999
- 2001 service terminated October 2001
- 2001 O&D - Origin and Destination

SOURCE: Aer Rianta 2003 Personal Communication

According to Aer Rianta, this suggests that we can expect almost 25,000 passengers to use a Shannon-Belfast service, assuming that a useful frequency of service is provided and that the aircraft used is acceptable to passengers in terms of speed, comfort and amenities. On the frequency issue, Aer Rianta suggests that a minimum frequency of a daily service would be required at the initial stage of development. The frequency could then be reviewed in light of market developments and yield requirements. Shannon Airport's catchment area extends throughout the western and central regions of Ireland including the Limerick, Ennis and Galway axis.

Map 2: Shannon Airport's Catchment Area



SOURCE: Aer Rianta

The propensity index values also highlight the potential market for point-to-point air travel between Belfast and Dublin. By implication, a realistic target for a Belfast-Dublin route, at fares comparable to those currently applying between Dublin and Cork, would be more than 40 per cent the current Dublin-Cork market size. It should be noted that this does take into account the existing Enterprise rail service, which while of high quality is not particularly **fast or convenient for the growing number of Southbound journeys which do not end in Dublin city centre or the large number of those Northbound trips originating in the Greater Dublin area, for which Connolly Station is little or no more convenient than Dublin Airport.**

Air could offer a significant door-to-door time saving to the centre of Belfast over road or rail, and to a lesser extent for journeys between such locations in Dublin and central Belfast. In the reverse direction, the early morning train service from Belfast is superior in terms of frequency to that offered Northbound. While the business market generated from the North would be more oriented to the city centre, the growth of Dublin around the M50 C ring and to the north and west of the city could provide a substantial niche market for air.

The out-turn performance of such service would depend critically on suitable departure and arrival times at both Belfast and Dublin airports. However, *air would very much remain a minority mode and be more likely to abstract trips from private cars or generate additional travel than draw passengers making centre-to-centre journeys by rail.*

Moreover, it is important to recognise this propensity index does not take into account intra-Ireland or international interlining at Dublin Airport or Shannon.

It can be argued that an appropriate basis on which to translate these index values into passenger estimates is by correlating them with passenger volumes or capacities/service levels where such services already exist. It is for that reason and because of the size of the market that we have chosen the Belfast-Cork route as a validator for the index values derived from the MORI/MRC survey and business activity indicators.

Table 13 below demonstrates that if the propensity index for Dublin-Cork is linked to recent service and total demand levels on that sector, this would imply that Belfast-Cork might generate a market of up to 63,000 passengers per annum or up to 22,000 based purely on read across from Aer Arann carryings for 2001/2002. Whichever is closer to an accurate estimate, this does suggest that such a route could approach viability if the upper end of this range could be achieved. Moreover, Aer Arann, with its focus on point-to-point traffic, has recently increased capacity significantly on the route, something which is reflected in the substantial growth in travel referred to above.

Turning to the Belfast-Dublin sector, the index values suggest that a market might exist for approximately 100,000 passengers per annum point-to-point, with a lower limit in the region of 35,000. A figure towards the upper end should prove financially viable while even at the lower level a twice-daily operation could approach viability. However, it must be emphasised that Belfast-Dublin was not a priority for the oversight Advisory Group or the terms of reference for this exercise. *Moreover, a Belfast - Dublin service could not be expected to attract PSO status.* Thus the initiative lies with the marketplace in responding to these findings.

**TABLE 13:
POTENTIAL POINT-TO-POINT PASSENGER PROPENSITY INDEX VALUES
BASED ON MORI/MRC SURVEY AND FLIGHT FREQUENCY**

RETURN FARE: £200	£150	£100	Flights	RETURN FARE: £200	£150	£100	Flights
DUBLIN TO				CORK TO			
BMA (Antrim)	7	22	33	-	BMA (Antrim)	11	17
BMA (Down)	1	3	5	-	BMA (Down)	8	12
Dublin	-	-	-	-	Dublin	8	43
Cork	21	30	100	9	Cork	-	-
Limerick	8	16	35	4	Limerick	-	-

THE WAY FORWARD

Potential contribution of interline traffic for sector viability

The evidence presented above suggests that two direct routes, Belfast-Cork and Dublin-Belfast, may be potentially viable without substantial financial subsidy. A direct Belfast-Shannon service would probably require a much higher level of subsidy to become attractive to an operator. However, the fact that Belfast-Shannon did operate for some time does suggest that a combination of industry willingness and support from Aer Rianta at Shannon means that a Belfast-Shannon service should not be excluded, but encouragement offered to prospective operators to assess the financial viability of the route with public funding.

Moreover, this does not take account of Shannon's well-established precedent as a hub for transfer traffic from other cities including Belfast (see Table 14).

TABLE 14:
SHANNON'S TRANSATLANTIC PRODUCT (SUMMER 2003)

DESTINATION	FREQUENCY	SCHEDULE	CARRIER	A/C TYPE
Atlanta	Daily	3 flights non-stop	Delta	B767-300
		4 flights direct via Dublin		
Boston	Daily	Non-stop	Aer Lingus	A330
Chicago	Daily	Via Dublin	Aer Lingus	A330
New York (JFK)	Daily	Non-stop	Aer Lingus	A330
Newark	Daily	Non-stop	Continental	B757
Baltimore	5 fts weekly	Non-stop	Aer Lingus	A330
Philadelphia	Daily	Non-stop	US Airways	B767
Toronto	Daily	Non-stop	Air Canada	B767

SOURCE: Aer Rianta 2003 Personal Communication

The absence of direct scheduled services from Northern Ireland to the US means that travellers must make an intermediate stop in order to reach their final destination. In practice most travellers have traditionally used London as a connecting point between Belfast and the US because it offers the best choice of connecting flights.

The demise of the Belfast-Shannon route and BA's Belfast-Heathrow route in 2001, together with recent reduction in bmi's services on this sector and imminent cutbacks in BE's Belfast-Gatwick services, conspire to reduce the choice offered with respect to North American travel to/from Belfast.

The current bilateral air services agreement between Ireland and the US allows airlines to provide one direct air service to/from Dublin for every flight that is operated on a direct basis to/from Shannon, regardless of the US gateway chosen. Over the next three years, it is envisaged that this market sector will continue to grow at an annual rate of 7 per cent.

The 2001 Civil Aviation Authority (CAA) data shows us that Aer Lingus carried almost 14,500 Belfast passengers onwards through Shannon to US destinations. This survey also identifies connecting traffic flows through UK gateways. Table 15 below summarises this information by gateway.

TABLE 15:
BELFAST - US PASSENGER TRAFFIC (2001)

AIRPORT	BELFAST BY AIR
London	133,684
UKP Airports	10,667
Shannon	14,485
TOTAL	158,836

SOURCE: CAA data (2001)

Aer Rianta estimates that a daily service by an airline would generate over 7,000 interline passengers in its first year of operation. This figure is based on the traffic flows between Shannon and Belfast in 2001; however, with recent cutbacks in London Heathrow connections from Northern Ireland, this estimate could well be conservative.

The potential for interlining at Dublin relates not only to international travel to mainland Europe and North America but also within Ireland. Undoubtedly, creation of a mini-hub operation based at Dublin would not afford as attractive a route as a direct service. However, the development of frequent services on the Dublin-Cork sector, combined with restoration of suitably timed services from Dublin to Shannon, Kerry and possibly Galway, could save travellers to the West of Ireland substantial amounts of time compared with alternative surface travel, even if transfer were necessary at Dublin. Nevertheless, this is recognised as being a second best solution, with direct services preferable from the customer perspective.

The attractiveness of Dublin as a potential mini-hub for Northern Ireland has grown as links from Belfast to international destinations via Heathrow and other airports in Great Britain have weakened because of the curtailment of BA services out of Belfast International Airport, a development probably hastened by the upsurge in activity from the low cost sector. Ironically, while offering cheaper flights from Belfast to Great Britain, the recent transformation of air connections serving Northern Ireland may have increased the overall generalised cost of air travel for onward destinations in mainland Europe and North America in particular.

In marked contrast, and despite the presence of Ryanair, Dublin in particular has witnessed a substantial growth in international travel fostered by Aer Lingus and other full service carriers, while the range of international destinations now served directly means that only Manchester, aside from London, offers a wider range of international direct flights. Dublin will therefore become even more attractive as a hub to intending international travellers from Northern Ireland at present accessing international destinations via Great Britain. However, accessing Dublin from the North by road or rail represents that airport's Achilles heel. The basic point-to-point traffic identified earlier for a Belfast-Dublin route could be substantially increased by provision of [connecting flights between Belfast and Dublin in the same way as Cork feeds Dublin.](#)

Overview of financial viability of most promising routes

The two most promising routes identified from the available evidence are Belfast-Cork and Belfast-Dublin. The question that will have to be addressed by prospective operators and other stakeholders concerns the financial viability of these sectors and Belfast-Shannon. This will also have important implications for any PSO designation and financial subsidy requirement. It is noted that Belfast-Dublin would not qualify for PSO status given current circumstances.

Preliminary contacts with the industry have informed our understanding of the minimum passenger traffic required to ensure such routes would be viable. We have based our assumption on the operation of a typical 50-60 seat turbo prop aircraft. However, this does not rule out use of more sophisticated equipment. Our understanding of the costs of operating such aircraft suggests an annual cost of £1.9-£2.0 million (€2.9-3.0 million).

This includes both fixed and operating costs. These figures suggest that, with a yield of £50 (€75) each way, 40,000 passengers per annum would be needed for minimum viability, assuming a twice daily schedule on weekdays with one return trip on Sundays. This would imply an average fare of £100 (€150) return excluding taxes and other off-aircraft charges.

In relation to a Belfast-Dublin route, the evidence from the survey points to the existence of an elastic demand with respect to price at fare levels above £100 (€150) return for business travellers originating in the North. This implies that at fares of say £150 (€230) per round trip or above, the extra revenue per passenger would be more than offset by loss of patronage. Taking into account market response among travellers originating in the South this would imply that on the basis of the survey, passenger revenue would be maximised at business-oriented fares between £70 (€100) and £100 (€150) return.

For the Belfast-Cork route, the evidence concerning fare sensitivity is less clear-cut. The survey findings would imply that for Northern-generated business travel a significant proportion of the viable market would be willing to pay up to £200 (€300) return although for Southern-generated traffic the elasticity is significantly greater at around 1 for fares between £100 (€150) and £200 (€300) return. However, even allowing for these differences the evidence does suggest that a substantially lower patronage level than that suggested above, say of the order of 30,000 passengers per annum including leisure traffic, would yield a viable twice-daily operation

between Belfast and Cork.

A Belfast-Cork route offering a day-return facility from both ends is unlikely to be financially sustainable, certainly in the short to medium term, without subsidy. The Belfast-Dublin route proposal initially generated scepticism from the industry; however, a number of salient facts should be emphasised:

- The travel market between Belfast and Dublin has increased at least 200 per cent since the last attempt to operate such a route;
- Dublin has expanded greatly as a business and visitor centre during that period;
- Congestion has increased markedly and the Enterprise train service, while a substantial improvement on the past, is less than 5-10 minutes quicker than a decade ago;
- Belfast City Airport has established itself a thriving business airport with well-appointed facilities;
- The decline of full-service airline operations out of Belfast makes Dublin an increasingly attractive option for international business travel. Constraints at Heathrow are going to produce ever-greater pressure on Belfast-Heathrow route with consequences for international connectivity for Belfast; and
- Finally, should Belfast-Cork not prove viable with or without subsidy a second best option (for serving Cork), but which would have wider benefits in terms of all-island access, would be to schedule a Belfast-Dublin route to facilitate interlining within Ireland to all destinations served from Dublin (including Cork but also Shannon, Kerry, and Galway).

In relation to the Belfast-Shannon sector, Aer Rianta estimates that a daily service would generate over 35,000 in its first year of operation. This figure is based on the point-to-point traffic flows between Shannon and Belfast in 2001, together with the following assumptions relating to connecting traffic: based on the operation of a daily return service, an airline would capture a significant amount of traffic to the US, plus Aer Lingus traffic as at 2001 (20 per cent of Belfast-Great Britain connecting traffic for selected US origins/destinations). However, it must be recognised that the point-to-point assumption is based on implicit fare levels charged in 2001 by Aer Lingus on its A330 aeroplanes. Marginal revenue pricing was employed by the airline at that time to fill up otherwise substantial numbers of empty seats, which were then taken by transatlantic passengers beginning or ending their journey at Shannon. Any other airline, particularly a regional carrier, would find it impossible to offer such ticket prices under current conditions, in the absence of very substantial subsidies.

PSO DESIGNATION AND PUBLIC SUBSIDY: APPLICABILITY AND POTENTIAL CONTRIBUTION TO ROUTE VIABILITY

Case for PSOs on cross-border services

While acknowledging the potential for a non-PSO-designated Belfast-Dublin service, the widespread use of PSOs in other EU countries does provide a strong argument for their introduction here, to support other air links across the border which would otherwise be marginally viable or demonstrably loss-making. Belfast-Cork and Belfast-Shannon are two such examples. *Combining both, either with triangular operation or through service, might offer a reasonable compromise.*

One would have to demonstrate that the proposed service satisfies the conditions for a PSO. The basis for all PSOs is set out in Article 4 of the European Commission's third package of air transport liberalisation measures adopted under Council Regulation No. 2408/92 in 1992.

The air link being proposed for a PSO must be vital for the economic regeneration of the region being served, and should in theory be unattractive without subsidy to a commercial airline. However, as there are no specific guidelines laid down in EU legislation, it is up to member states just how they analyse the need for a PSO. That clearly gives some scope to a government to decide just how and where PSO - supported services can be introduced. In reaching a decision, the authorities must have regard to public interest issues as well as the adequacy of alternative means of transport. Overall, it would appear that the decision to go ahead is in great part down to political will rather than a bureaucratic interpretation of European Community rules.

The process member states have to go through to set up a PSO involves the publication of an invitation to tender in the Official Journal of the European Commission. Minimum service levels, fare limits, and rules on termination of contracts must be specified. Penalties for inadequate compliance have to be explained. The contracts cannot last for more than three years. If no carrier offers to provide the service without subsidy, then the tender invitation is reissued with a subsidy offered. After a PSO is proposed, the authorities must wait two months to allow other Member States to make comments. At that point the decision to adopt a proposal must be influenced by the adequacy of the services offered, the fare structure submitted and the subsidy sought.

Subsidy levels and tendering of services

What level of subsidy might have to be offered to attract airlines to compete for the contract of running cross-border services between Belfast and Cork or Belfast and Shannon or both?

Some guidance can be gained by examining the subsidy levels provided in other countries. In 2000 Iceland provided £340 (€522) per passenger on its sole PSO service. This figure, however, is much greater than the averages for other Member States. They are mostly clustered between £41 (€63) for Scotland, and, at the lower end of the scale, £21 (€32) for Portugal and £14 (€22) for Ireland.

Just what subsidy is offered is obviously determined in part by the level of service stipulated in the contract. The higher the specification in terms of the size and type of aircraft, frequency of service, and timetabling, the higher the support required. Of course, as a service becomes more popular the subsidy per passenger will decline because of the normal economies of scale. The nature of the route also exerts an influence on costs. If the route can feed into other regional services, rather than simply be point-to-point, there is scope for lowering subsidies, even on low-volume traffic. It may be the case that no support is required at all.

A significant factor influencing subsidy costs is the tendering process. The more tenders there are, the more competitive the bidding will be. Tendering can take several forms, the main ones being gross cost and net cost. In the former, the public authority pays for the entire cost of the service, defraying its expenses by taking all the ticket revenue. In the latter, the public authority pays the difference between the estimated cost of the service and the estimated ticket revenue. The second form tends to discourage bidders because they find themselves assuming too much risk, while in the former the airline has no inducement to promote the service since it gets its money whether the aircraft is full or empty. There is also a hybrid form of tendering which the author has devised, which encourages both bidding and efforts to promote the service. In this form the public authority pays for the entire cost of the service, keeps the ticket revenue, but then allows the airline to retain revenue above a benchmark figure. Buses: The Future, General Consumer Council 2002 (draft).

Despite the invitation to tender for PSOs being publicised in a journal with EU wide circulation, it appears that only rarely does an airline attempt to provide a service outside its own country of origin. The only current example is the Scottish airline Loganair which provides the Dublin/City of Derry service.

Choice of aircraft

As indicated, the nature of the route, the sophistication of the airports used and the frequency of traffic expected will heavily affect the choice of aircraft to be used. It will not, however, necessarily determine which plane is to be picked. The level of subsidy available will play a part. For example, if comfort is at a premium to attract business travellers, a regional jet might be chosen over an older unpressurised model. It will cost more money but might in the longer term be the best way to draw in trade.

The comparison below between two routes brings out some interesting points about subsidy and choice of aircraft.

TABLE 16:
CONTRASTING PSO ROUTES

	DUBLIN - DONEGAL	GLASGOW - TIREE
Sector length (kms)	222	174
Service frequency	Daily	Daily except Sunday
Passenger traffic in 1999	10,753	5,030
Daily capacity	36 seats	19 seats
Load factor in 1999	42%	43%
Return fares	£65 - £74	£96 - £144
Route subsidy	£450,000	£250,000
Subsidy per single trip	£43	£50
% of costs subsidised	38%	31%
Break-even load factor	90%	70%

SOURCE: Williams, 1991. Deciding an appropriate dividing line between subsidised and non subsidised air services. Second Forum on Air Transport in European Remote Regions, Jersey, (March 2001).

The route length, load factor and frequency of Dublin/Donegal and Glasgow/Tiree are broadly comparable. What distinguishes them is the passenger traffic and level of subsidy per passenger, which are both higher on the service to Donegal. Intuitively, this is surprising. What partly explains the anomaly is the choice of aircraft. On the Donegal route the Shorts 360 has been replaced with a more comfortable ATR 42; Tiree is served by an unpressurised De Havilland Twin Otter. The maximum fares demanded provide the rest of the explanation: on the Dublin to Donegal route the highest charge is £74 (€114) return while on the Glasgow to Tiree service, it is almost twice as expensive at £144 (€221). Lowering fares to boost trade would incidentally not work for the Tiree service, as the island has a small and declining population.

Indirect support

PSO routes can benefit not just from direct subsidies but also from grants towards infrastructure projects and marketing initiatives. In Scotland, PSO services are helped indirectly by the annual subsidy given by the Scottish Executive to Highlands and Islands Airports Ltd (HIAL). They also benefit more directly by receiving discounts on aeronautical charges dispensed at most HIAL airports. In Ireland subsidies are targeted more directly at PSO services, nevertheless, the routes benefit indirectly from the marketing and infrastructure grants given by the Dublin government to regional airports.

Thus, within the Republic of Ireland there are a number of ways in which support might be raised to back air services from Belfast to Cork/Shannon. Firstly, the Northern Ireland Executive could initiate the process to designate both routes as PSO services. If subsidies are required, it would be a matter of judgement just what the level of support would be. From the foregoing analysis, it would appear that the type of aircraft, the frequency of service, and timetabling requirements would influence the level of support. A service which could feed into other routes, both internal and abroad, could reduce the need for support and, in the case of a Belfast to Dublin link, might obviate the requirement for any form of subsidy at all. Furthermore, marketing initiatives, whether directed at the business or tourist market could provide an indirect form of assistance.

A strong case can be made for granting PSO status on selected cross-border routes. The precedent exists with the Dublin-City of Derry service, which of course is subsidised wholly by the Irish government. The evidence from across the EU shows the high value put on such forms of support by Member States. The existence of a rail alternative does not invalidate the case as, in both Germany and France, PSO services run alongside high-speed train services.

The real hurdle facing any grouping seeking PSO status for a cross-border route on the island is the attitude of the UK government. The UK is less persuaded than other countries of the value in social terms of subsidised air travel. That more negative attitude, however, is no real bar to action. Scotland has 12 PSO routes and there are efforts being made to secure more. Northern Ireland has so far had none, despite having relatively low levels of prosperity and being located on the periphery of Europe. It would be difficult for the administration at Stormont to reject a well-prepared case for imposing PSO status on routes such as Belfast to Cork and possibly Belfast to Shannon, or a combined operation.

Development of an effective strategy to advance the case for island wide air services

The development of an effective strategy to advance the case for island-wide air services will require careful consideration. However, it should provide for:

- Creation of a well-informed working group of key opinion-formers, with a secretariat provided by InterTradeIreland;
- Hosting a high level workshop with interested parties in Ireland and Scotland to exchange ideas and experience;
- Production of a well-written dossier report articulating the case for realistic routes;
- Lobbying key opinion-formers and government decision-makers in Dublin, Belfast and London;
- Detailed confidential discussions with various airlines to establish the most robust case possible; and
- Engagement with business media North and South to raise awareness of the project and to convince the wider public that these air links will benefit the whole of Ireland.

The evidence does suggest that for Belfast-Cork and Belfast-Shannon it would be well worth developing a strategy to advocate that both the industry and the two governments investigate the potential seriously.

This research and consultation process has identified potential for a commercially viable cross-border service linking Belfast and Dublin. The attractiveness of such a service, both for point-to-point and interlining traffic at Dublin, would critically depend upon timings and frequency. The implications of our findings do suggest that if both market segments were to be targeted it would probably necessitate basing an aircraft in Belfast. In the case of point-to-point traffic this would not be critical but potentially a desirable requirement. However, as this route would require financial viability without subvention, the role for InterTradeIreland would probably focus on information dissemination, advice and possibly some marketing support.

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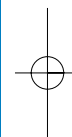
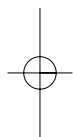
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ANNEX 2: RESPONDENT COMPANIES AND AGENCIES FOR INTERVIEWS

PHILLIP ELECTRONICS
MAXOL
FITZPATRICKS HOTEL GROUP
MITCHELSTOWN CO-OP
IRISH FERTILISER INDUSTRIES
ATLAS ALUMINIUM
DE BEERS
SHANNON DEVELOPMENT
BARRYS TEA
MOHAWK EUROPA
UNIPHAR PHARMACEUTICALS
HAMILTON SHIPPING
BEAMISH & CRAWFORD
UNITED DRUG
AVONCOURT PACKAGING
FITZWILTON GROUP
AER RIANTA
FORFAS
IBEC/CBI JOINT BUSINESS COUNCIL
SEAN QUINN GROUP
BOXMORE
GALEN
PRICEWATERHOUSECOOPERS
IRISH DISTILLERS
UTV
TRUETEMPER
W G BAIRD
MUSGRAVES LTD
WOULD U LIKE GROUP
DAIRYGOLD
IBEC REGIONAL OFFICE CORK
IBEC REGIONAL OFFICE LIMERICK
IRLANDUS CIRCUITS
CHAMBERS OF COMMERCE OF IRELAND
IRISH EXPORTERS ASSOCIATION
CBI
IRISH RUGBY FOOTBALL ASSOCIATION 1
CORK CHAMBER OF COMMERCE
NORTHERN IRELAND CHAMBER OF COMMERCE
GAELIC ATHLETIC ASSOCIATION
3 NAMES NOT SUPPLIED



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