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Spending Review 2019

A Review of the Regional Airports Programme

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Irish Government Economic and Evaluation Service

Trends

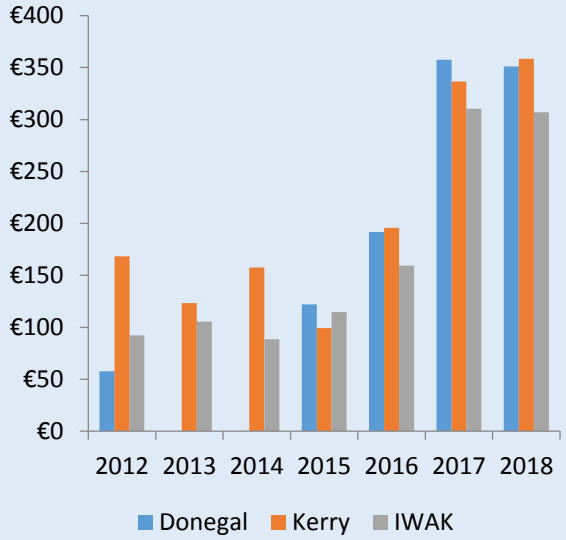
The Regional Airports Programme (RAP) provides capital grants and operating subvention to four regional airports in Ireland—Donegal, Farranfore (Kerry), Ireland West Airport Knock (IWAK) and Waterford—as well as funding two Public Service Obligation (PSO) domestic air services between Donegal-Dublin and Kerry-Dublin. The purpose of the RAP is to ensure that economically and socially beneficial but financially unviable air connectivity can be provided to Ireland's more isolated regions. The current RAP is in place for 2015-2019, making this analysis a timely contribution to the evidence base regarding the future of the Programme.

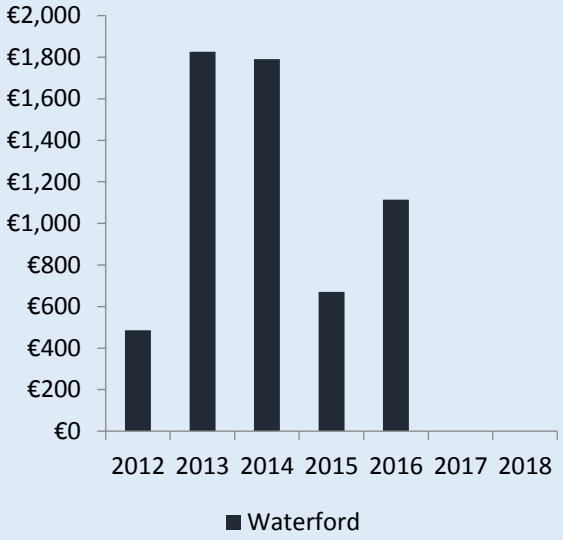
Regional Airports Programme expenditure by airport, 2012-2018

Total (€m)	2012	2013	2014	2015	2016	2017	2018
Donegal	3.86	3.94	3.93	4.26	4.43	4.33	4.75
Kerry	6.24	5.18	4.54	4.66	4.90	5.69	5.78
IWAK	1.29	2.67	2.47	1.16	2.93	3.20	4.18
Waterford	2.57	1.48	1.57	1.92	1.04	0.00	0.75
Total	**14.31**	**13.27**	**12.52**	**11.99**	**13.30**	**13.21**	**15.46**

With the exception of Waterford Airport which handles no scheduled services, passenger numbers have been steadily increasing at each of the airports. Despite this, as a result of increased safety and security requirements as well as improved Government finances, subsidies for operating costs have also increased in recent years. The three airports offering flights have each seen revenues grow quicker than operating costs over the duration of the current Programme, except for Donegal Airport which faced an increase in one-off operating expenses in 2018.

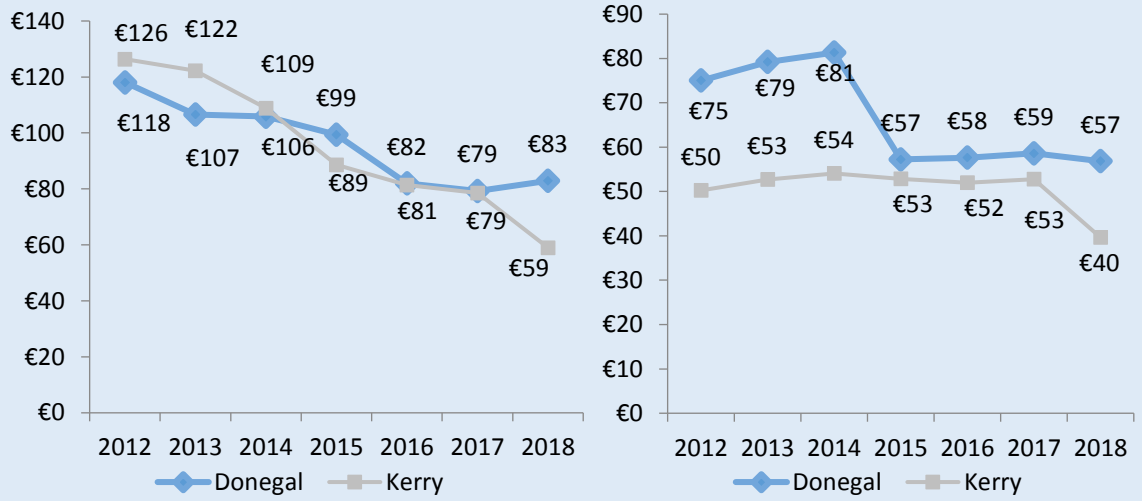
Operating subvention per flight





Donegal and Kerry PSO services have seen significant passenger growth in recent years, in line with the recovery of the wider economy. As a result, PSO subsidy per passenger and per seat have decreased substantially since 2012. Should PSO services be renewed beyond the current contract, the revenue impact of the increased passenger numbers may provide scope to reduce the overall level of subvention provided.

PSO Subsidy per Passenger (left) and per seat (right)



Key findings

The objectives of the Programme are found to be largely consistent with Government priorities in respect of regional development. The rationale for the policy approach is also consistent with the relevant EU Guidelines on State Aid rules. The provision of regional air services would be extremely challenging without Government intervention. With that in mind, it is difficult to offer strong conclusions on the extent to which the Programme is meeting its connectivity objective, in light of a lack of strictly defined objectives or targets relating to connectivity—I.e. number of services, number of routes operated, number of passengers. Consideration should be given to defining connectivity indicators in any future Programmes.

Operating subvention has steadily increased in recent years. If passenger numbers and revenues continue to increase, it is reasonable to expect that this trend will not continue indefinitely and potentially that subvention will begin to decrease in coming years, as the airports' financial positions improve.

There is relatively little data on passengers using the regional airports. Factors such as origin, destination and journey purpose would be valuable in evaluating the impact of the airports. The next Regional Airports Programme should require surveys capturing passenger profiles.

PSO subvention has decreased on both a per passenger and per seat basis over the duration of the current Programme, as passenger numbers have increased. Increased passenger numbers also mean higher revenue levels accruing to these services, so if this trend continues the subvention levels required to operate these services could be expected to decrease.

For both Donegal and Kerry, PSO delay rates and cancellation rates are both significantly below the target levels set out in the PSO contracts. Consideration should be given to reducing these thresholds in future PSO contracts.

1. Introduction

This paper provides high-level analysis of efficiency metrics and impacts of Ireland's Regional Airports Programme (RAP). The RAP provides capital grants and operating subvention to four regional airports in Ireland—Donegal, Farranfore (Kerry), Ireland West Airport Knock (IWAK) and Waterford—as well as funding two Public Service Obligation (PSO) domestic air services between Donegal-Dublin and Kerry-Dublin. The purpose of the RAP is to support economically and socially beneficial, but financially unviable, air connectivity to Ireland's more isolated regions. The current RAP is in place for 2015-2019, making this analysis a timely contribution to the evidence base regarding the future of the Programme.

This paper has been completed as part of the Spending Review 2019. The Spending Review process aims to improve how public expenditure is allocated across all areas of Government. It aims to place evidence at the heart of policy making, by systematically examining existing spending programmes with a view to assessing their efficiency and effectiveness. The focus of this particular Review is on the Current funding elements of the RAP.

Given the stated aim of the Spending Review and the high-level nature of the analysis in this paper, it was not intended that this paper conclude with policy recommendations regarding public funding for Ireland's regional airports—rather, it is intended to add to the evidence base which will be drawn upon for such decisions.

This paper is set out in sections as follows:

- Section 2 provides a background to the RAP;
- Section 3 sets out the rationale for and objectives of the RAP;
- Section 4 examines the continuing rationale for Exchequer funding for the four airports and two PSO services;
- Section 5 examines the efficiency of the RAP in relation to some key metrics;
- Section 6 looks at the outputs and impacts of the RAP;
- Section 7 sets out some conclusions.

2. Background to the Regional Airports Programme

Programme Expenditure

The RAP provides capital grants and operating subvention to four regional airports in Ireland—Donegal, Farranfore (Kerry), Ireland West Airport Knock (IWAK) and Waterford. Table 1 shows total spending in the programme for each airport from 2012-2018.

Table 1: RAP expenditure by airport, 2012-2018[1]

Total (€m)	2012	2013	2014	2015	2016	2017	2018
Donegal	3.86	3.94	3.93	4.26	4.43	4.33	4.75
Kerry	6.24	5.18	4.54	4.66	4.90	5.69	5.75
IWAK	1.29	2.67	2.47	1.16	2.93	3.20	4.18
Waterford	2.57	1.48	1.57	1.92	1.04	0.00	0.75[2]
Total	**14.31**	**13.27**	**12.52**	**11.99**	**13.30**	**13.21**	**15.43**

Kerry has consistently received the most subsidy from 2012 to 2018, with Donegal second. This is due to these two airports having PSO services while the other two do not. In terms of operating subvention, Department policy allocates this proportionally to operating expenditure, and so IWAK has received the highest levels of funding over this period. IWAK has also consistently received the most funding in capital grants, though the relative funding levels between the airports has fluctuated as they tend to be project-based. Exchequer funding for Waterford Airport ceased after scheduled commercial flights stopped operating at the airport in 2016, with the exception of two emergency payments in 2018 relating to facilitating Search and Rescue operations, which have been categorised as PPR-O (see later in this Section for explanations of the different funding streams in the RAP) . In June 2019 a decision was taken by Government approving, in principle, an amount of €5 million of Exchequer funding towards the cost of a €12 million runway extension at Waterford Airport with a number of conditions attached.

Ireland's Regional Airports

Donegal Airport

Donegal Airport is located in Carrickfinn, a townland in north-west County Donegal. It began operations in 1986. It is owned and operated by a private limited company 'Aerphort Idirnaisiúnta Dhún na nGall Teo'. Its runway is approximately 1,500m in length, which means the airport does not have the capability to handle larger, jet aircraft. The airport has been operating a domestic PSO route to Dublin Airport since 2007, and there was also a service to Cork in 2009 and 2010. The airport also runs a service to Glasgow and has handled charter services to Rotterdam for a number of years from 2008. In 2018, Stobart Air withdrew its service to Glasgow, and the service was replaced by Loganair. Donegal Airport handled around 46,500 passengers in 2018.

[1] Figures for Donegal and Kerry includes PSO subvention for air services to/from Dublin.
[2] This €750,000 comprises two emergency payments in 2018 to ensure a continuation of Search and Rescue operations while a review of its future was under consideration.

Table 2: Destinations served by Donegal Airport

Dublin	United Kingdom (Glasgow)

Ireland West Airport Knock (IWAK)

IWAK is located just over 5km from Charlestown, County Mayo. It is owned and operated by Connacht Airport Development Company Ltd. It is Ireland's largest regional airport, and offers flights to 23 destinations in 9 different countries. The airport officially opened in 1986—a primary rationale for the construction of the airport was to provide access to Knock Shrine for pilgrims. It has a runway length of 2,340m. In 2017, the airport announced €15m of investment to upgrade the airport, including a resurfacing of its runway.

In 2018, the airport handled 772,000 passengers, more than double the number of the next biggest regional airport (Kerry).

Table 3: Destinations served by IWAK

Bosnia-Herzegovina (Medjugorje)	Croatia (Split)
Finland (Lapland)	France (Lourdes)
Germany (Cologne)	Italy (Milan)
Portugal (2 destinations)	Spain (7 destinations)
United Kingdom (9 destinations)	

Kerry Airport

Kerry Airport is located in Farranfore, County Kerry. It is operated by Kerry Airport plc. The airport has been handling light private aircraft since 1969 with the first scheduled service to use the airport taking place in 1979. Its runway is 2,000m in length. Kerry handles a domestic PSO service to Dublin, as well as a number of international routes, all of which are operated by Ryanair. In 2018, the airport handled more than 365,000 passengers.

Table 4: Destinations served by Kerry Airport

Dublin	Germany (2 destinations)
Portugal (Faro)	Spain (Alicante)
United Kingdom (2 London airports)	

Waterford Airport

Waterford airport is located in Killowen in County Waterford. It is operated by Waterford Regional Airport plc. The airport opened in 1981, with passenger services launching the following year. It has a runway of just over 1,400m in length, meaning the airport cannot handle larger jet aircraft. The airport has handled routes to a number of domestic and international destinations but, since June 2016 when VLM discontinued its flights to London Luton, the airport has had no scheduled flights.

Table 5: Summary information for four regional airports

Airport	Routes Available 2019	Total Passengers 2018	Total RAP Subsidies Received 2018	Current Runway Length (Metres)	Other Facilities/ Services	Staff Directly Employed 2018	Owners
Donegal Airport	• Dublin (PSO) • Glasgow	46,537	€4,753,879.98	1,496	• Car Hire • Car Park • Retail & Restaurant facilities • Refuelling Service • 12,900 sqft hangar	28	Aerphort Idirnaisiúnta Dhún na nGall Teo
Kerry Airport	• Dublin (PSO) • United Kingdom – 2 Destinations • Germany – 2 Destinations • Spain - Alicante • Portugal – Faro	365,339	€5,780,386.63	2,000	• Car Hire • Car Park • Retail & restaurant facilities • Refuelling Service • Hangar	50	Kerry Airport PLC
Ireland West Airport Knock	• UK – 9 Destinations • Spain – 7 Destinations • Portugal – 2 Destinations • Italy – Milan • France – Lourdes • Croatia – Split • Bosnia – Medjugorje • Germany – Cologne • Finland - Lapland	771,619	€4,176,104.70	2,340	• Car Hire • Car Park • Retail & restaurant facilities • Executive Lounge • 20,000 sqft Hangar Refuelling Service	155	Connacht Airport Development Company Ltd
Waterford Airport	• No Commercial services	-	€750,000.00	1,433	• Car Park • Refuelling Service • Hangars (size not specified)	29 (2014)	Waterford Regional Airport PLC

The Regional Airports Programme

Ireland's Regional Airports Programme 2015-2019 was published in July 2015. It states that "regional airports are considered important because of a level of international connectivity that they bring to a region for tourism and business. That connectivity is seen as being a significant contributory factor underpinning Ireland's economic recovery and sustainable development into the future." It is Government policy that Ireland's smallest airports are eligible to receive grant assistance through this Programme in compliance with EU Guidelines on State Aid. Passenger numbers at these airports are less than 1 million per year (three have less than 400,000). It is recognised that, without State support, these smaller airports would struggle to comply with international regulatory obligations relating to safety and security.

The financial support administered by DTTaS consists of 5 separate schemes, which are:

Capital Expenditure

A Regional Airports Capital Expenditure Grant (CAPEX) Scheme: This scheme can provide funding of up to 75% of total eligible costs for capital investments relating to economic activities of the airport. Economic activities are those activities except for air traffic control[3], police, customs, firefighting activities necessary to safeguard civil aviation against acts of unlawful interference and the investments relating to the equipment and infrastructure necessary to perform those activities. This 75% limit is imposed by the 2014 EU Guidelines, which are described in Appendix 1.

A Public Policy Remit Capital PPR-C Scheme: This scheme can provide funding of up to 90% of total eligible costs for capital investments relating to non-economic activities of the airport. The 90% limit is imposed by DTTaS policy.

Operating Expenditure

A Core Airport Management Operational Expenditure (OPEX) Scheme: In respect of airports handling up to 700,000 passengers annually, this scheme can compensate for up to 80% of the 'operating funding gap'[4] relating to the economic activities of the airport. For airports handling more than 700,000 passengers annually the scheme can compensate for up to 50% of the funding gap. These limits are imposed by the 2014 EU Guidelines, which are described in Appendix 1. Only two airports, Kerry and Waterford were deemed eligible to apply for OPEX subvention under the current RAP in line with EU rules. However neither airport met the qualifying criteria set down for funding under this RAP scheme in 2017 or 2018.

[3] This is specifically stated within the 2014 EU Guidelines, though it is worth noting that the definitions of economic and non-economic infrastructure may change over time. For example, referencing ECJ Case T-818/14 which, in January 2018, ruled that air navigation and traffic control equipment constitute economic infrastructure.

[4] Defined in the 2014 EU Guidelines as the operating losses of the airport over the relevant period, discounted to their current value using the cost of capital

Public Policy Remit Operational (PPR-O) Scheme: This scheme can provide funding of up to 100% of operating costs relating to non-economic activities of the airport. It typically covers the salary costs associated with these activities.

Public Service Obligation Funding

Public Service Obligation (PSO) Air Services Scheme:[5] This scheme provides financial support to airlines for two domestic air services, a Donegal-Dublin route and a Kerry-Dublin route. It is provided based on a need to ensure appropriate connectivity in these areas, which would not otherwise be served by adequate transport services. Appendix 2 sets out the criteria to be examined when reviewing the on-going funding of PSO services, which include "the possibility of having recourse to other modes of transport and the ability of such modes to meet the transport needs under consideration, in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connections and suitable timings".

Figure 1: Regional Airports Programme Schemes

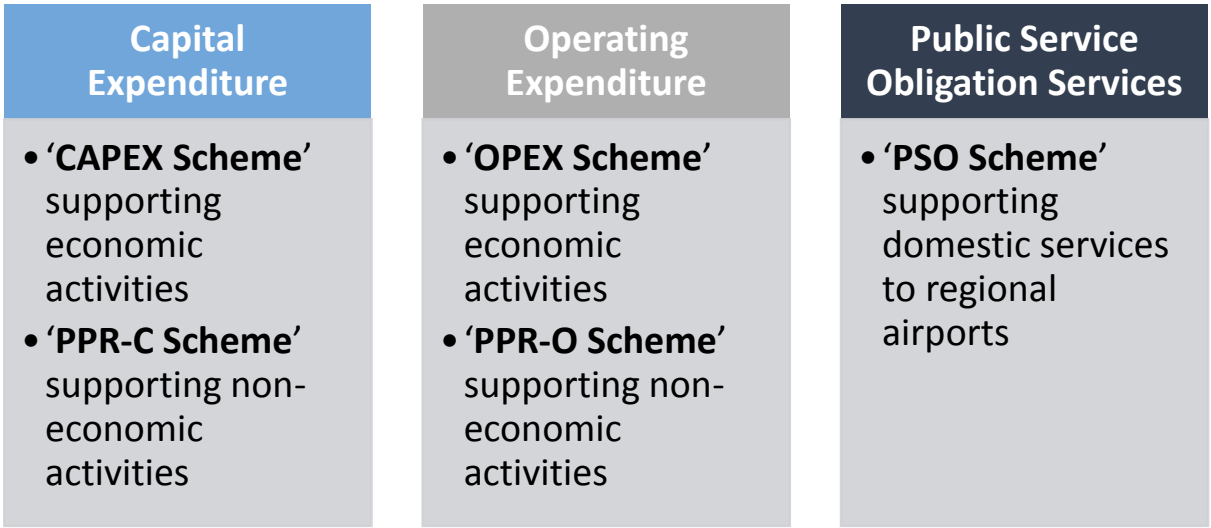


Table 6 shows the level of funding granted to the four airports over 2012-2018, broken down by the five programme categories. Spending on the Regional Airports Programme declined from 2012-2015 before rising again after that. 2015 was the beginning of this five-year programme and saw the introduction of the PPR schemes for non-economic expenditure. Capital grants, by their nature, have fluctuated quite a lot, but have broadly followed a similar pattern to the programme as a whole. For operating expenditure, we can see that there has been a steady decline in expenditure relating to economic activities from 2012. In fact, no OPEX subvention was paid in 2017 or 2018. Conversely, expenditure relating to non-economic operating aid has been increasing steadily since 2015. PSO subvention has remained steady throughout this period.

[5] It is worth noting that the RAP does not cover PSO air service for the Aran Islands, which fall under the remit of the Department of Culture, Heritage and the Gaeltacht..

Table 6: RAP expenditure by category

Total (€m)	2012	2013	2014	2015	2016	2017	2018
PSO	7.37	7.62	7.76	7.58	7.58	7.69	7.25
OPEX	2.48	2.21	2.09	0.76	0.59	0.00	0.00
PPR-O	0.00	0.00	0.00	1.52	2.38	3.61	4.52
CAPEX	4.01	3.46	3.02	0.04	1.61	0.85	2.53
PPR-C	0.00	0.00	0.00	2.10	1.13	1.07	1.16
Total	**13.86**	**13.29**	**12.87**	**11.99**	**13.30**	**13.21**	**15.43**

While the discussion of the rationale for the Regional Airports Programme will implicitly be considering each of these funding streams, the rest of this Spending Review paper will limit its scope to focus on OPEX, PPR-O and PSO funding.

2010 Value for Money and Policy Review

A useful reference point for this review is the Value for Money Review of Exchequer Expenditure on the Regional Airports Programme, published by the Department of Transport in 2010. At the time the Regional Airports Programme covered six airports—the four currently included in the Programme as well as Galway and Sligo airports. The Review focused on the following areas:

- Cost and Efficiency;
- Effectiveness
    - Access to the regions,
    - Air service connectivity to the regions
    - Business impact of regional airport to the region/catchment area
    - Tourism impact benefits

The report made a number of key recommendations. The most prominent of these was that Exchequer support in Connacht should be focused on Knock airport, thus ending support for Galway and Sligo. Support for these two airports was ended in 2011. The report also recommended that "The Donegal-Dublin PSO service should be retained and the PSO services from Dublin to Kerry, Galway, Sligo, Knock and Derry should be ended". With the exception of Kerry, these PSO services have all ceased operating.

The report also recommended that CAPEX grants be confined to "essential safety and security work" and that "continuing OPEX support at Donegal, Knock, Kerry and Waterford" should be provided subject to stringent assessment of annual requests for subvention and encouragement of greater efficiency through the use of benchmarking performance indicators." It noted, however, that the decision to retain Opex at Waterford was finely balanced and reflected a view that it could contribute to tourism in the South East and that Waterford is the only city with a greater than 2-hour surface journey time to a State airport.

3. Rationale and Objectives of the Regional Airports Programme

Rationale of the Programme

When considering the rationale for the RAP, the review seeks to assess whether the objectives are consistent with stated Government priorities, whether there is a clear rationale for the policy approach being pursued, and if there is a need for a Government role in the provision of regional air services.

A National Aviation Policy for Ireland (NAP) notes that our regional airports were developed to provide improved connectivity both nationally and internationally, to deliver social and economic benefits to the regions they served at a time when land transport links were poor. It also makes the point that the development of our land transport network has reduced the importance of the regional airports for connectivity within Ireland. However, the NAP does highlight the continued importance of the regional airports in providing international connectivity, as "our population is very dispersed and our economy relies to a critical level on inbound tourism and on FDI business." In that regard it acknowledged that regional airports, supported by Exchequer funding, have an important role to play. In the context of the 2014 EU Guidelines on State Aid, it specifies that the airports should be given the opportunity to grow to a viable, self-sustaining position.

People, Place and Policy – Growing Tourism to 2025 sets out the rationale and strategy for prioritising and promoting overseas tourism in Ireland. The policy considers that the tourism sector's best prospects for growth are in generating increased levels of overseas tourism and revenue. It highlights the role that regional airports have to play in achieving this ambition.

Project Ireland 2040 – National Planning Framework has a vision for balanced regional growth in Ireland. The importance of national and international connectivity is stressed throughout the NPF. It states that "the effectiveness of our airport and port connections to our nearest neighbours in the UK, the EU and the wider global context is vital to our survival, our competitiveness and our future prospects." The NPF recognises that Ireland's airports including the regional airports are "a key infrastructure for national and regional development". It specifically goes on to note IWAK's importance in improved connectivity in the west, and makes the point that short travel times to an airport with a good choice of destinations as being a critical factor to international connectivity.

Economic and Social Rationale

We note the National Planning Framework's ambitions around building stronger regions, and the importance of tourism and FDI in sustaining and growing employment and the economies of the associated regions. It is then necessary to consider why Government support is required and warranted. The Public Spending Code states that, when considering the rationale for a programme, evaluation should ask, "What is the underlying market failure justification for Government intervention?" In the context of the exchequer funding for regional airports, two main issues arise:

- **Lack of suitable alternative modes.** There can be a rationale for public support of regional airports where alternative modes—land transport for domestic connections, sea/air transport plus land transport for international connections—do not exist, or are not sufficiently well-developed to provide high-quality regional access. Lack of suitable alternative modes can exist for two reasons:
    - A region may be sufficiently peripheral and isolated that it is simply impossible for land transport links to provide access to major urban centres or international

connections within a reasonable time period. In this case, air connectivity acts as a vital 'lifeline' for this region.

  - There may be the potential for land transport to act as an alternative to air, but it is not yet developed. Exchequer spending is constrained by available budgets, and investment projects in road and rail have a very long project lifecycle. In this instance, a subsidised regional airport can provide access until land transport infrastructure is a viable alternative.

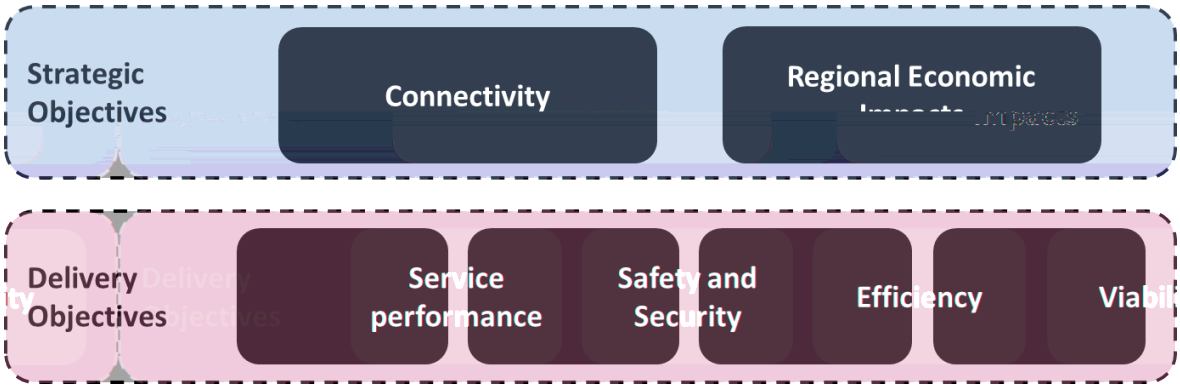
- **Economies of scale.** Regional airports, by their very definition, serve areas with smaller populations than those served by the State airports. There are very high fixed costs involved in the operation of an airport, and therefore a certain scale of operation is required in order for an airport to be profitable. The 2014 EU Guidelines state that "airports that have fewer than 1 million passengers per annum typically [struggle] to cover their operating costs." Where there is a regional geographic justification for the existence of an airport, economies of scale can provide the economic rationale for Government support.

Taken together, these two issues can provide a rationale for the financial support of regional airports. It is important to note in assessing the rationale, that consideration of these issues requires a degree of nuance. For example, a regional airport that services a very small local population will require higher levels of support due to economies of scale. Exchequer support can therefore be justified where region's access to alternative modes or alternative airports are poor

Objectives of the Programme

Having identified the rationale for Government intervention in the Regional Airports Programme, we now set out the objectives of the Programme. As Figure 2 sets out, it has two 'strategic objectives', which are to deliver connectivity and economic benefits for the relevant regions. It also has four delivery objectives which are: to ensure a high level of performance of the services being delivered; to ensure compliance with international safety and security regulations; to ensure the operational efficiency of the programme—that is, that the Programme is being delivered at an appropriate level of cost; and to ensure that the Programme is enabling the regional airports to become increasingly financially viable.

Figure 2: Objectives of the Regional Airports Programme



Strategic Objective 1 – Connectivity

The rationale for Government intervention in the provision of regional airport services is underpinned by the need to provide connectivity where it otherwise would not exist to a sufficient standard. Particularly in comparison with larger urban areas, remote communities can have limited access to key services such as healthcare, education and social services, as well as to employment and leisure opportunities. A relevant consideration of this objective is the range of routes offered by an airport, their value to residents of the local region, and whether they attract business travel or tourism. In addition the frequency and capacity of services are key measures of the connectivity offered by the airport. A key objective for the Regional Airports Programme, then, is to provide access to domestic centres of scale and international destinations, for the residents of the catchment area of the airport.

Strategic Objective 2 – Regional Economic Impacts

Air connectivity can bring many wider economic benefits to a region. It is an objective of the Programme to facilitate the delivery of economic benefits to the regions served by the airports. The most direct such benefits are the economic activities generated through airports and airlines and aircraft manufacturers, and the local employment created by these. In addition, remote rural areas generally see lower employment growth than areas with greater access to cities. So there can be both a direct employment effect resulting from the airports, and an indirect employment effect resulting from the improved connectivity, which can increase the economic viability of the regions in which they are situated.

In addition, improved connectivity can lead to wider economic benefits. Burghouwt (2017) notes that "Connectivity growth in an airport region may lead to a higher density of economic activities in that region….and result in higher productivity measured in GDP/Capita, for example because of knowledge and technology spill-overs, a pooled labour market and access to a larger diversity of products/inputs." These effects are known as agglomeration effects. Air accessibility can also be a significant factor in the choice of location by international companies.

As noted in the International Transport Forum's 2017 Transport Outlook, "[the] aviation industry is also a key enabler of trade and of many other industries, the first of which is tourism." As an island, Ireland is very dependent on accessibility by air to enable international tourism. According to the CSO, a total of 10.62 million trips were made to Ireland in 2018. Of these trips, 9.78 million (92%) were made by air.

Delivery Objective 1 – Service Performance

In order to meet its connectivity objectives, the services offered from an airport must be of an adequate level. If services suffer excessively frequent delays or cancellations, this can undermine the connectivity and wider benefits of the airport. For the same reason, user costs, primarily in the form of airline fares are an important consideration, because if users face excessively high expenses it will undermine the benefits to them of the service or cause them not to use the services in the first place.

Delivery Objective 2 – Ensuring Safety and Security

A National Aviation Policy For Ireland states that safety is its number one priority. It also committed to "ensuring that sustainable aviation security systems are delivered, with due consideration of cost, efficiency and the impact on passengers and air transport operators." All airport capital and operating funding under the Regional Airports Programme 2015 to 2019 has been exclusively focused on safety and security enhancements and activities at the airports. In Ireland, the Irish Aviation Authority monitors compliance with international regulatory obligations related to the areas of safety and security.

Delivery Objective 3 – Programme Efficiency

The Department of Finance's 2007 Value for Money and Policy Review Initiative Guidance Manual defined efficiency as "optimising the ratios of inputs to outputs". Put another way, we can view this objective as a requirement to achieve the levels of output of the Programme at the optimum cost. As public expenditure is ultimately funded by taxpayers, and could alternatively be used to fund other public services or not spent at all (thus enabling reduced taxation), it is vital that where spending does occur it is efficient. In this case, the relevant outputs include the number of services offered, the number of seats offered, and the number of passengers.

Delivery Objective 4 – Increased Financial Viability

The 2014 EU Guidelines are clear that regional airports should be moving towards financial viability during the current 'transitional period'. It is therefore an objective of the Programme that the financial performance of each of the airports moves in a positive direction. Relevant considerations here include: whether the OPEX subvention to the airport has reduced over the duration of the Programme; whether revenues have increased over the same time period; and whether efficiencies in costs have been achieved over that time period.

4. Continuing Rationale

Access to the Regions

Donegal Airport

As set out in Section 1, one of the primary justifications for Government support of regional airports is the peripherality or isolation of that region, as measured in this case by land transport accessibility to/from Dublin City and the nearest State Airport. In the case of Donegal, we define Dublin as the relevant large urban centre, and will assess the transport times to Dublin, and Dublin Airport. Table 7 sets out the accessibility of the region, in terms of journey times to Dublin and Dublin airport.

Table 7: Surface journey times to/from Donegal Airport[6]

Road journey time Donegal Airport to Dublin City Centre (Busáras)	Rail journey time Donegal Airport to Dublin City Centre	Road journey time Donegal Airport to Dublin Airport
3h50m – 4h30m	**n/a**	**3h30m – 4h10m**

As Table 7 shows, journey times between Donegal Airport and Dublin can typically take more than four hours, and are a little shorter to Dublin Airport, making Donegal the most remote regional airport. In addition, Donegal does not have any rail links. This strongly demonstrates the poor accessibility of the region in the absence of air links. It is worth noting that Donegal Airport is located in a particularly peripheral part of the country, and that, for example, its largest urban centre Letterkenny, is a 45 minute drive from Donegal Airport. Accordingly, Letterkenny is not quite so isolated from Dublin (around 45 minutes closer). However, even in the case of Letterkenny, average journey times are well over three hours.

Donegal Airport is also 2h30 – 3h from Belfast International Airport, and 2h40 – 3h20 from George Best Belfast City Airport (again, based on arriving at 9am on a weekday). Letterkenny is about an hour closer to both airports.

The National Development Plan (NDP) has set out a number of roads schemes in the National Roads Programme 2018-2027. A few schemes are worth mentioning. The 'N56 Dungloe to Glenties' and 'N56 Mountcharles to Inver' projects are earmarked for planning/design/construction and will improve the national road network in West Donegal. There are also three upgrade projects of the N2 set for pre-appraisal/early planning which, coupled with the development of the A5, could significantly improve journey times from Letterkenny. However, these infrastructure improvements will not be realised in the short-term and journey times to Dublin are likely to remain in excess of 3 hours.

[6] Source: Google Maps. Journey is planned so as to arrive at 9am on a weekday.

Ireland West Airport Knock

In the case of IWAK, we define Dublin and Galway as the relevant large urban centres, and will assess the transport times to Dublin Airport and Shannon Airport as the nearest State airports. Table 8 sets out the accessibility of the region.

Table 8: Surface journey times to/from IWAK

Road journey time IWAK Airport to City Centre	Rail journey time IWAK to Dublin City Centre	Road journey time IWAK Airport to Airport
2h30m – 3h20m (Dublin, Busáras) **1h10 – 1h40 (Galway, Eyre Square)**	**3hr-3hr30m (Ballina, Sligo, Westport stations)**	**2h20m – 2h50m (Dublin Airport)** **1h40m – 2h (Shannon Airport)**

As the table shows, journey times between IWAK and Dublin can typically take two and a half to three and a half hours, and are a little shorter to Dublin Airport. The journey to Shannon Airport takes a little under two hours. Galway City can be reached within an hour and half. The region does have a number of rail links to Dublin, including the Westport-Dublin line (which has an offshoot to Ballina) and the Sligo-Dublin line. It is worth noting that remote areas in the north west of Ireland are served by IWAK, and would have far longer journey times to Dublin or to alternative airports.

It should also be noted that a number of roads in the region are earmarked for improvements in the current National Development Plan (2018-2027) including the N5 and the N17. Upgrades to the N17 between Knock and Collooney in particular may be beneficial to the airport in reducing journey times from Sligo and Galway, thereby increasing overall accessibility of the airport.

Kerry Airport

Table 9 outlines the accessibility of the region in terms of journey times to Dublin City and to the two nearest State airports, Cork and Shannon.

Table 9: Surface journey times to/from Kerry Airport

Road journey time Kerry Airport to City Centres	Rail journey time Farranfore to Dublin City Centre	Road journey time Kerry Airport to Airport
3h – 4h 20m (Dublin, St Stephen's Green) **1h 25m – 2h (Cork, Patrick Street)** **1h 15m – 1h 25m (Limerick, O'Connell Street)**	**3h 30m – 3h 45m**	**1h 40m-2h (Cork)** **1h 30m – 1h 50m (Shannon)**

In terms of possible road journey times to Dublin, Kerry Airport is the second most distant of the three regional airports currently handling passengers (Donegal airport has a maximum estimated

journey time of four and a half hours from Dublin). It should be noted, however, that Kerry Airport is less than two hours' drive from Cork and less than an hour and a half's drive from Limerick, the second and third largest urban centres in the State. It is also less than two hours from both Cork and Shannon airports. Kerry Airport is also the only airport in the State that has a heavy rail link in its immediate vicinity with Farranfore station less than 20 minutes on foot from the main terminal building. Both Killarney and Tralee can be reached by rail as well as Dublin and Cork. It takes between 3 hours 30 minutes and 3 hours 45 minutes to travel from by train Farranfore to Dublin while a direct train to Cork takes 1 hour and 45 mins from Farranfore[7].

Kerry Airport's location in Farranfore is well placed in terms of local and regional accessibility. The airport is situated on the N23 from Farranfore to Castleisland and is roughly equidistant on the N22 from Killarney and Tralee. Other national roads in the immediate vicinity of the airport include the N21 from Castleisland to Limerick and the N72 from Killarney to Mallow. The N22 via Killarney is the primary route to Cork. It is worth noting that, under the NDP, specific projects on both the N21 and the N22 are identified. Specifically, planning, design and construction have been earmarked to take place on the N21 as part of the N21/N69 Limerick Foynes project, and on the N22 between Ballyvourney and Macroom. These projects will improve access to Limerick and Cork, respectively. In addition, pre-appraisal and early planning is have been included as part of the National Roads Programme for schemes linking Castleisland to Limerick, improvements for the road in the vicinity of Abbeyfeale and a bypass for Newcastle West.

Waterford Airport

In the case of Waterford, we define Dublin, Cork and Limerick as the relevant large urban centres (noting that Waterford itself is a large urban centre), and will assess the transport times to Dublin Airport, Cork Airport and Shannon Airport as the nearest State airports. Table 8 sets out the accessibility of the region.

Table 10: Surface journey times to/from Waterford Airport

Road journey time Waterford Airport to City Centres	Rail journey time Waterford to Dublin City Centre	Road journey time Waterford Airport to Airport
2h 10m – 2h 50m (Dublin, St Stephen's Green) **1h 50m – 2h 10m (Cork, Patrick Street)** **2h– 2h 20m (Limerick, O'Connell Street)**	**2h – 2h 15m**	**2h – 2h 40m (Dublin)** **1h 40m-2h 30m (Cork)** **2h 20m – 2h 40m (Shannon)**

Excluding Waterford City itself, Waterford Airport is within 3 hours drive of Cork, Limerick and Dublin. Cork and Dublin Airports can be reached in around 2 hours Shannon Airport is slightly further.

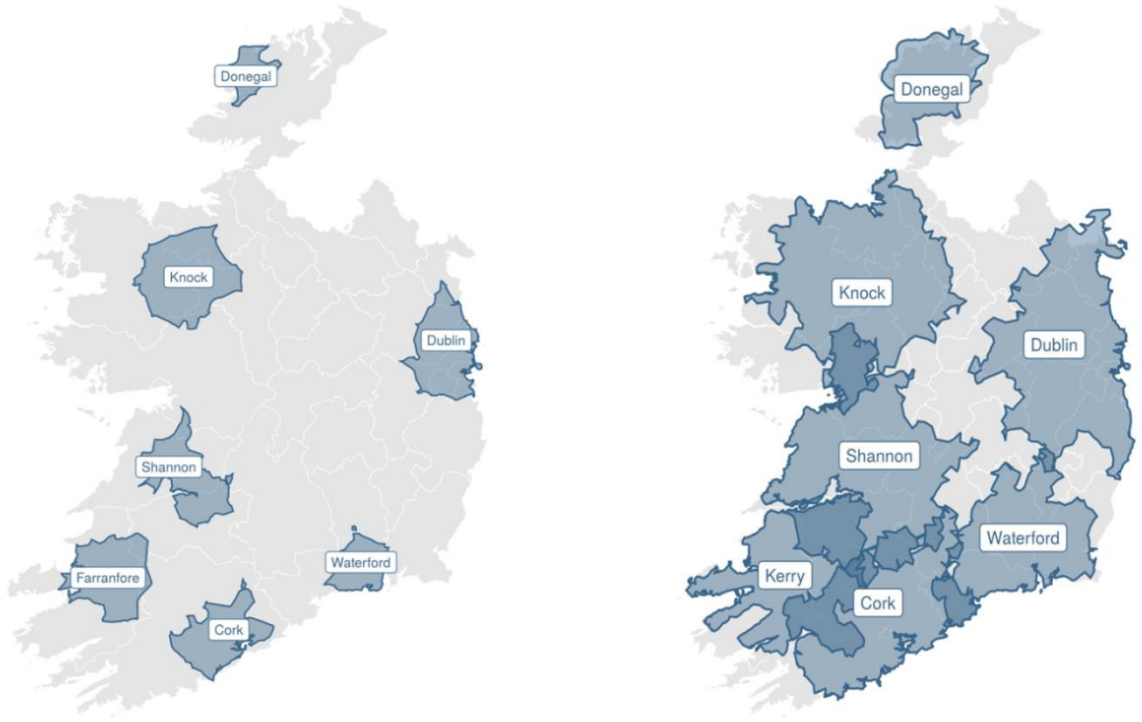
[7] Source: Irish Rail

The airport is located on the R708, approximately 14km from Waterford City centre. Within the general vicinity of the airport, the national road network consists of the N25, the N24 and the M9 motorway. The extent of the local road network provides the airport with good regional accessibility as highlighted by its relatively large catchment area. A number of improvement projects for the N25 are cited in the National Development Plan. However, these improvements are unlikely to significantly alter journey times to Dublin or Cork from Waterford. Similarly, the N24 is listed to be upgraded between Waterford and Limerick junction in County Tipperary with a number of projects currently in the planning stage. It is worth noting that significant road improvements to the N24 may reduce journey times to Shannon Airport.

Airport Catchment

Figure 3 shows 30-minute and one-hour catchment areas for Ireland's airports based on journey times by road. These catchment areas, and the populations residing within them, offer an illustration of the potential size of the market served by the airport, and the extent to which that market is shared with other airports. It is worth noting that these catchments are an imperfect metric for assessing market size. For example, it is reasonable to expect that an airport with a large service offering would have a larger catchment than one with a small service offering. That is, a larger airport may attract passengers who reside significantly closer to a small airport.

Figure 3: 30-min and 60-min catchment areas for Ireland's airports



Source: Transport Infrastructure Ireland

Donegal Airport

In geographic terms we can see that Donegal has significantly smaller catchments than the other six airports. This is due to a combination of Donegal's relatively low population density—there are no motorways and few national primary roads in Donegal—and the geographic characteristics of the region making many direct routes impractical. Both catchments are entirely within County Donegal.

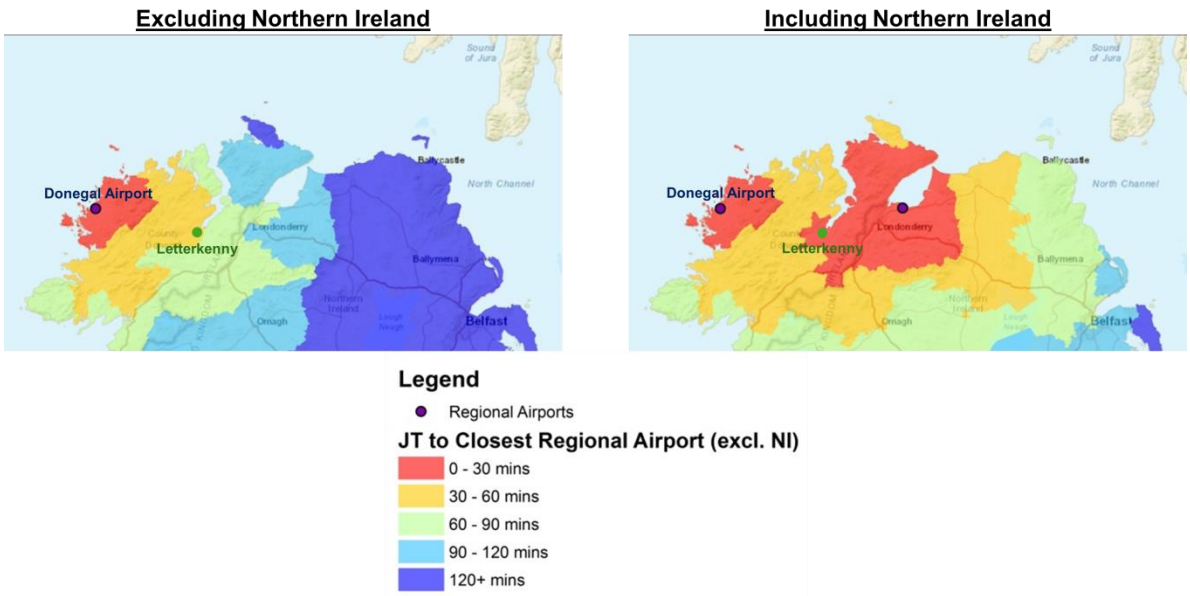
In terms of the populations within those catchments, as Table 11 shows, fewer than 10,000 people live within half an hour of the airport, with just over 70,000 living within an hour of it. These catchments do not overlap with the catchments of any other Airport in Ireland, as would be expected given the isolation of the region set out earlier in this section.

Table 11: 30 minute and 60 minute drive time catchments for Donegal Airport

Donegal Airport Catchments	30 minutes	60 minutes
Population	9,707	71,455

However, it should be noted that some parts of East Donegal are in relatively close proximity to Derry Airport. While Derry Airport has been excluded from the main catchment analysis as it lies within another jurisdiction, as Figure 4 shows, the Eastern part of County Donegal, including Letterkenny, are within a 30-minute drive of Derry Airport.

Figure 4: Donegal drive time catchments to regional airports, including and excluding Northern Ireland



Source: Transport Infrastructure Ireland

Derry Airport handles five routes to/from Great Britain—to/from Birmingham, Edinburgh, Glasgow, Manchester and a PSO service to/from London Stansted. DTTaS understands that around 40% of Derry Airport's passengers and PSO passengers originate from the Republic of Ireland.

As it does not operate services to/from Dublin Airport, Derry Airport does not compete with Donegal's main route, although it does compete directly with its Glasgow route. However, as a more conveniently accessible airport for a large proportion of Donegal's population, its existence is likely a limiting factor on Donegal's potential to attract more UK routes.

Conversely, the fact that Derry Airport is situated in the United Kingdom, coupled with the uncertainty around Brexit, means we cannot assume that Derry Airport will continue to remain as accessible to the people of Donegal as it is today. If Brexit were to lead to delays crossing the border with Northern Ireland, Donegal Airport could increase in importance as the people of Donegal would become more isolated geographically.

Ireland West Airport Knock

IWAK is located on the N17, approximately 8 km south of Charlestown, Co Mayo. In terms of the regional road network, the location of the airport is somewhat advantageous in that it lies on the primary route between Galway and Sligo and is approximately 7.5 km south of the interchange with N5 which provides access to other large urban centres in the region such as Castlebar. The extent of the road network in the immediate vicinity of the airport means a large portion of the Border, Midlands and Western Region is within a 60 minute drive of the airport.

IWAK's 30-minute geographical catchment is resident to around 58,000 and includes Castlebar. The wider catchment of the area is significantly larger than this, comprising more than 320,000 people. It is worth noting, however, that the one-hour catchment of the airport overlaps with that of Shannon Airport, with the overlap happening around Galway City, the most populous location in IWAK's catchment. However, for the North-West of Ireland, IWAK is the only airport within a reasonably short drive, which is of particular value as it offers a significant number of international connections.

Table 12: 30 minute and 60 minute drive time catchments for IWAK

IWAK Catchments	30 minutes	60 minutes
Population	58,060	322,638

Kerry Airport

Kerry Airport's immediate geographical catchment, consisting of areas within a 30 minute drive, is broadly similar to other airports and captures the towns of Tralee and Killarney. Nearly 90,000 people are therefore included in Kerry Airport's immediate catchment, the largest local population serviced by any of the four regional airports.

When the catchment area is extended to include areas within a 60 minute drive, Kerry Airport is accessible from the majority of Kerry as well parts of counties Cork and Limerick. As such, there is some overlap with the catchment areas of both Cork and Shannon airports as highlighted in Table 13. The total population within a one hour drive of Kerry Airport is 205,553, the second lowest population catchment after Donegal airport.

Table 13: 30 minute and 60 minute drive time catchments for Kerry Airport

Kerry Airport Catchments	30 minutes	60 minutes
Population	89,811	205,553

Waterford Airport

Waterford Airport's 30-minute geographical catchment is resident to around 88,000 and includes Waterford City. The wider catchment of the area is significantly larger than this, comprising more than 350,000 people, meaning Waterford has the largest one-hour catchment of any regional airport. The one-hour catchment overlaps in the West with that of Cork Airport and a small area in the North intersects with Dublin Airport.

The 2010 Value for Money Review noted that, without Waterford Airport "[Waterford] is the only provincial city that would have a 2-hour surface journey time to a State Airport". This remains true, even accounting for the fact that the road network between Waterford and both Cork and Dublin has improved since then and is targeted for further upgrades under the NDP.

Table 14: 30 minute and 60 minute drive time catchments for Waterford Airport

Waterford Catchments	30 minutes	60 minutes
Population	88,348	354,476

Conclusions

The analysis in this section is summarised in the following findings:

- Donegal Airport serves the most remote region of Ireland, with journey times to Dublin from the county greater than 4 hours. Because of this, there would appear to be a strong justification for a PSO service to Donegal Airport. The airport is located a significant distance from most of the major towns in the region, with limited public transport links, which reduces its wider value and potential to attract further commercial services.
- Kerry Airport has the largest local (within half an hour) catchment, in terms of population, of the regional airports, although its wider catchment overlaps with the catchments for both Cork and Shannon airports. While Kerry Airport is more than three hours by road from Dublin, its proximity to Cork should be considered when considering the future of its PSO service particularly when road improvements have been completed.
- For the population living in the North West, IWAK is considerably more accessible than other airports. More widely, it has a one-hour catchment of more than 300,000 people, offering scope for a relatively large number of services and passengers, though its catchment overlaps with the catchment for Shannon airport around Galway City. As it is around three hour's drive to Dublin, and close to Galway City, there is little justification for domestic routes, and the airport therefore exclusively offers international connections.
- Waterford Airport has the largest one-hour catchment, in terms of population, of the four airports, at over 380,000. Though this catchment overlaps with Cork Airport and, to some extent, Dublin Airport, it is the most accessible airport for Waterford City (which is around two hours' drive from both airports) and much of the South East. However, the lack of interest from airlines to offer routes to Waterford must be considered alongside that. As it is

less than three hours by road from Dublin City, a PSO route servicing Waterford cannot be justified as per EU Council Regulations.

5. Efficiency

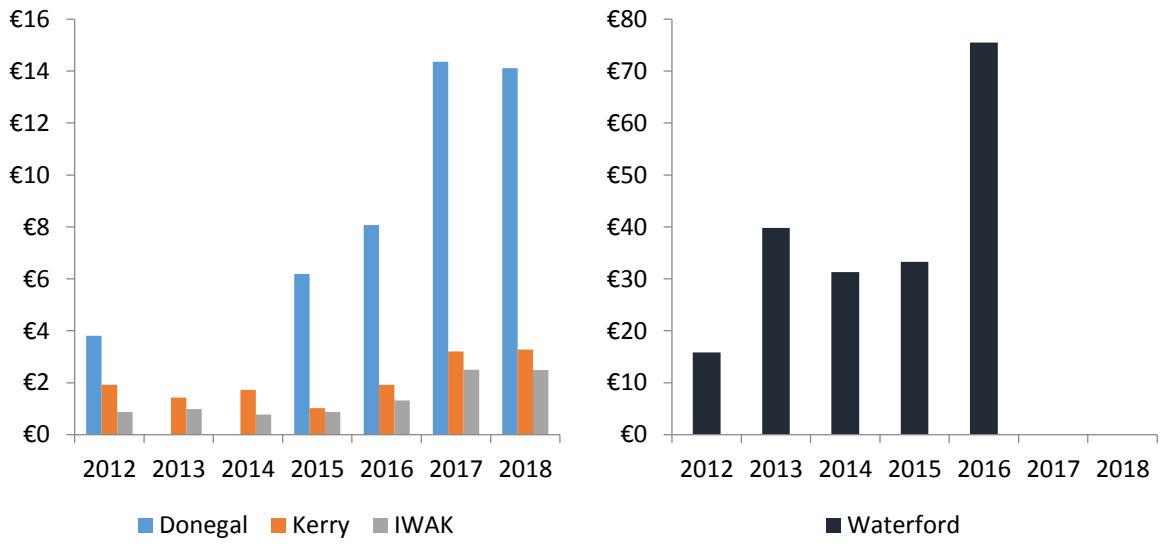
Airport Operations

OPEX and PPR-O Subvention

Figure 5 shows the operating subvention per passenger for the regional airports since 2012. As can be seen, the entire subvention received for operating expenditure for Donegal, Kerry and IWAK, has been categorised as PPR-O since that came into being in 2015. It is worth noting that PPR-O, and overall operating subvention, has increased significantly over the past few years, despite there also being significant increases in passenger numbers. This should not, however, be interpreted by itself as an indication of reduced efficiency. Rather, it is a reflection of an increase in safety and security requirements that must be complied with as well as Exchequer funding becoming less constrained following the economic recovery of the past few years.

Funding per passenger levels for Donegal and Waterford Airports stand out as being significantly higher than the other two airports. In the case of Waterford, total operating subvention was higher than any of the other airports in any of the years Waterford was operating flights. Donegal will be discussed further when we look at subvention per flight. This is most likely due to the fact that a significant proportion of operating expenditure is fixed (does not vary with passenger numbers), leading to a significantly higher subsidy level per passenger at these two airports.

Figure 5: Operating subvention per passenger, 2012-2018[8]

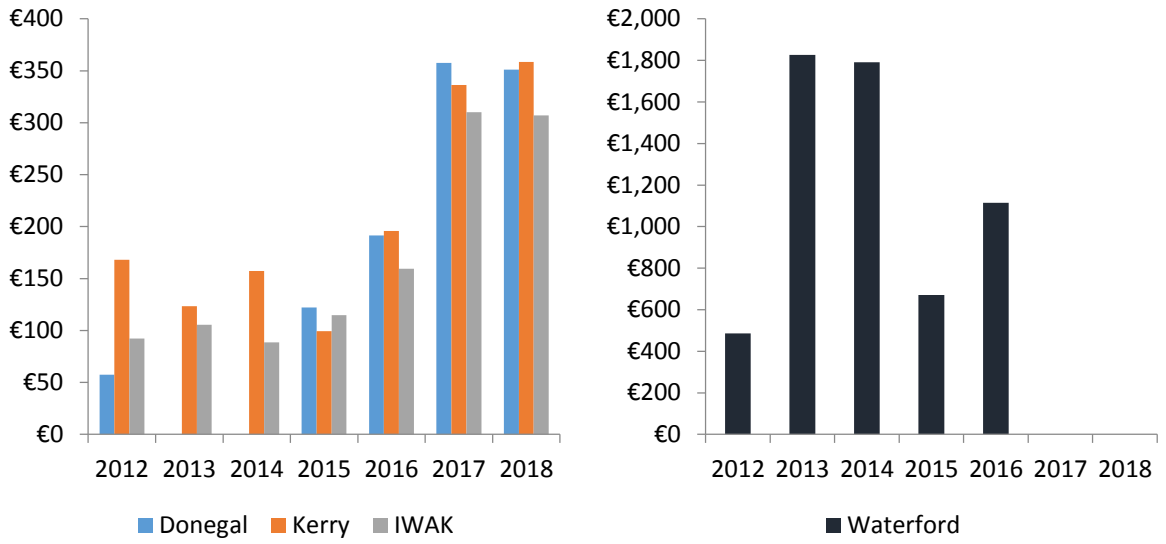


Donegal, Kerry and Knock Airports have handled roughly the same frequency of flights since 2012, so the trend in Figure 6, which shows operating subvention per flight, is highly correlated with overall operating subvention. It is worth noting that the overall levels of subvention per flight are a lot more similar between the three airports than subvention per passenger. The explanation for this is that flights operated at Kerry and Knock airports handle significantly more passengers on average than they do at Donegal due, in part, to those two airports being able to accommodate larger aircraft. In

[8] For Donegal, Kerry and Knock Airports, all funding from after 2015 is PPR-O, as none of these airports qualified for OPEX funding.

2018, the three airports received operating subvention of between €307 and €359 per flight. Again, Waterford received much higher assistance under this metric.

Figure 6: Operating subvention per flight, 2012-2018[9]



Financial Performance

Table 15 details year-ending financial outcomes for the four airports from 2014 to 2018. The three airports which are operating commercial flights have seen moderate upticks in both revenues and operating costs over this period, with the exception of a sharp decline in revenues at Donegal airport in 2015 as a result of a reduced number of services on the Glasgow route.[10] Kerry and IWAK have seen revenues grow more, in absolute terms, than operating costs. In terms of profitability, neither Kerry nor IWAK have posted a positive profit before tax (and before subvention) over this period, but annual losses have reduced every year. Donegal posted a profit of €135,000 in 2014, was at around zero in 2015-2017, and made a loss of €98,000 in 2018 due to increased operating expenses.

Waterford Airport hasn't operated scheduled commercial flights or received Exchequer funding (with the exception of emergency funding relating to Search and Rescue services) since 2016. Before then, however, the airport was in a significantly worse financial position than the other airports, and was the only airport where its operating costs exceeded its revenue. This is due to the small number of flights Waterford was handling relative to its capacity. In order to be in the financial position of, for example, Donegal, Waterford would need to be handling significantly more traffic than Donegal.

[9] All funding prior to 2015 was OPEX. Donegal, Kerry and IWAK have not qualified for OPEX funding in 2015-2018, so all funding in these years has been PPR-O.

[10] Donegal saw revenues fall from 2014 to 2015 due to a reduced number of services on the Glasgow route.

Table 15: Revenues, operating costs and profits, 2014-2018[11]

€'000		2014	2015	2016	2017	2018	% change 2014-2018
Donegal	Revenue	€1,582	€1,400	€1,445	€1,474	€1,479	-6.49%
	Operating Costs	€1,259	€1,253	€1,320	€1,310	€1,418	12.68%
	Profit Before Tax	**€135.2**	**€3**	**-€2**	**€1**	**-€98**	
Kerry	Revenue	€6,062	€5,760	€5,995	€6,341	€7,195	18.70%
	Operating Costs	€4,357	€4,467	€4,825	€5,049	€5,464	25.42%
	Profit Before Tax	**-€378**	**-€256**	**-€265**	**-€226**	**-€141**	
IWAK	Revenue	€12,176	€12,260	€12,640	€13,123	€14,277	17.26%
	Operating Costs	€7,465	€7,565	€8,373	€8,569	€8,885	19.02%
	Profit Before Tax	**-€463**	**-€486**	**-€325**	**-€193**	**-€167**	
Waterford	Revenue	€1,727	€1,722	€1,530	N/A	N/A	
	Operating Costs	€2,466	€2,489	€2,320	N/A	N/A	
	Profit Before Tax	**-€1,444**	**-€1,440**	**-€1,373**	**N/A**	**N/A**	

While each of the three airports handling scheduled commercial flights made a loss (before tax) in 2018, it is worth noting the 2014 EU Guidelines (see Appendix 2) state "airports that have fewer than one million passengers typically struggle to cover their operating costs". With that in mind, it is expected that these airports require some amount of public subsidy. Indeed, it is worth noting that the 2014 Guidelines allow OPEX funding only during a transitional period of 10 years. None of these three airports have received OPEX funding from 2015, as they have been able to fully cover the operating costs relating to their economic activities. If revenues continue to grow, we may reasonably expect that the amount of total subsidy (I.e. PPR-O) the airports need to cover their costs will reduce over time.

PSO Scheme

Figure 7 shows the PSO subvention per passenger using those services. As PSO spending has remained very steady over this time period, and passenger numbers have increased significantly, this metric has reduced by 33% for Donegal and by 55% for Kerry, between 2012 and 2018. While this is certainly a positive development, it is necessary to look at other measures of output to get a full picture of the efficiency trends of this service.

[11] Profit before tax is not the difference between revenues and operating costs. Profit before tax also accounts for Cost of Sales, Interest and Depreciation. Therefore the third row in each airport will not be the difference between the first two rows.

Figure 7: PSO subvention per passenger, 2012-2018

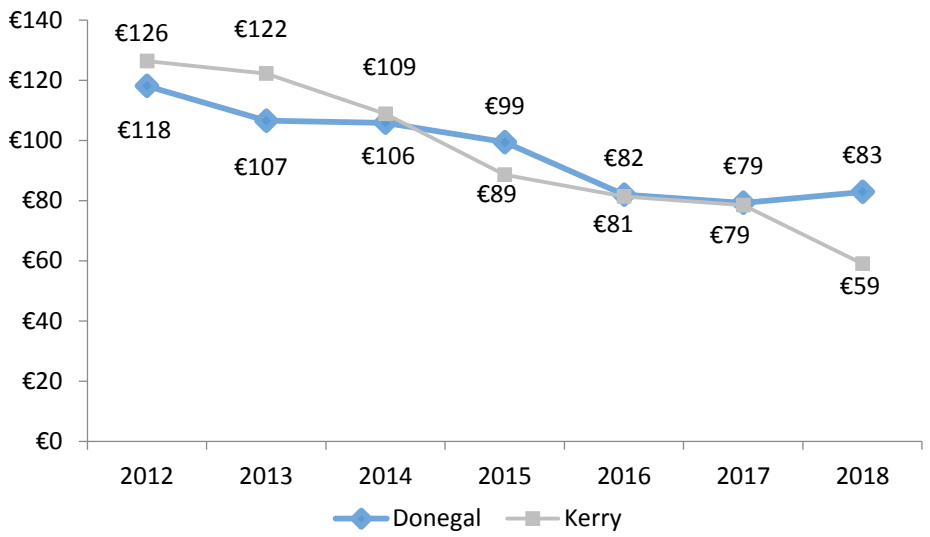
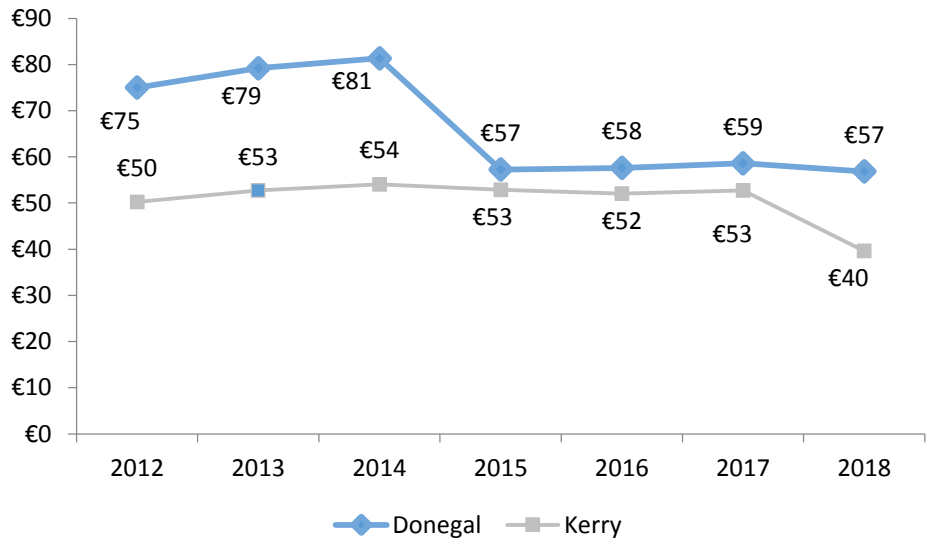


Figure 8 shows the level of PSO subvention per seat. By this measure, subvention for Donegal decreased sharply between 2014 and 2015. This is because, up until early 2015 the services were operated by Loganair, which flew an aircraft with a capacity of 30-34 passengers. Since then the route has been operated by Stobart Air, using an aircraft with a capacity of 46-47 seats. The result of this is that the capacity of the route increased while the level of subsidy remained constant.

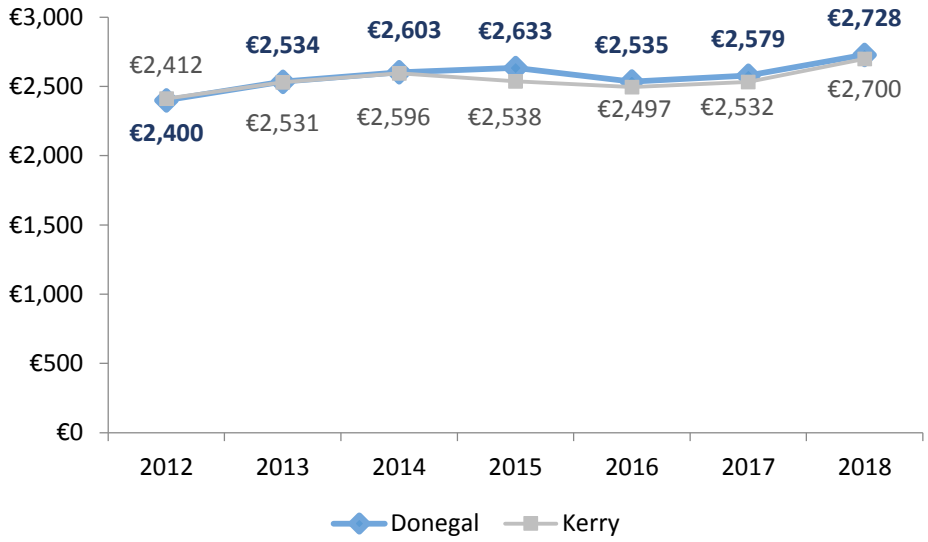
PSO subvention for Kerry decreased in 2018 for the same reason; the aircraft used to operate the route has a capacity of 70 seats, up from 48 prior to February 2018.

Figure 8: PSO subvention per seat, 2012-2018



On a per flight basis, the level of subsidy has varied little between 2012 and 2018, as both the PSO subvention and the number of flights have been fairly constant. This metric is almost identical for the two PSO services, which is to be expected, given overall level of subsidy is very similar and the number of flights operated per day is the same.

Figure 9: PSO subvention per flight, 2012-2018



Conclusions

The analysis and metrics set out in this section are summarised in the following findings:

- Operating subvention for the three airports operating flights has increased significantly in the past 7 years. However, this is due to increased safety and security requirements as well as more funding being available to the airports following the economic recovery of recent years, rather than worsened financial performance.
- The three airports faced net losses in 2018. They have each seen revenues increase more quickly than operating costs over this period (with the exception of sizeable increase in costs at Donegal Airport in 2018). The analysis only examines Waterford airport up until 2016 when it stopped handling flights, but notes that before this it was making substantial losses due to low flight traffic.
- PSO subvention per passenger has decreased substantially since 2012, driven entirely by increases in passenger numbers rather than decreases in subvention. PSO subvention per seat has also fallen due to larger aircraft operated by Stobart Air—this represents an increase in the level of service provided relative to public expenditure.

6. Impacts

Donegal Airport

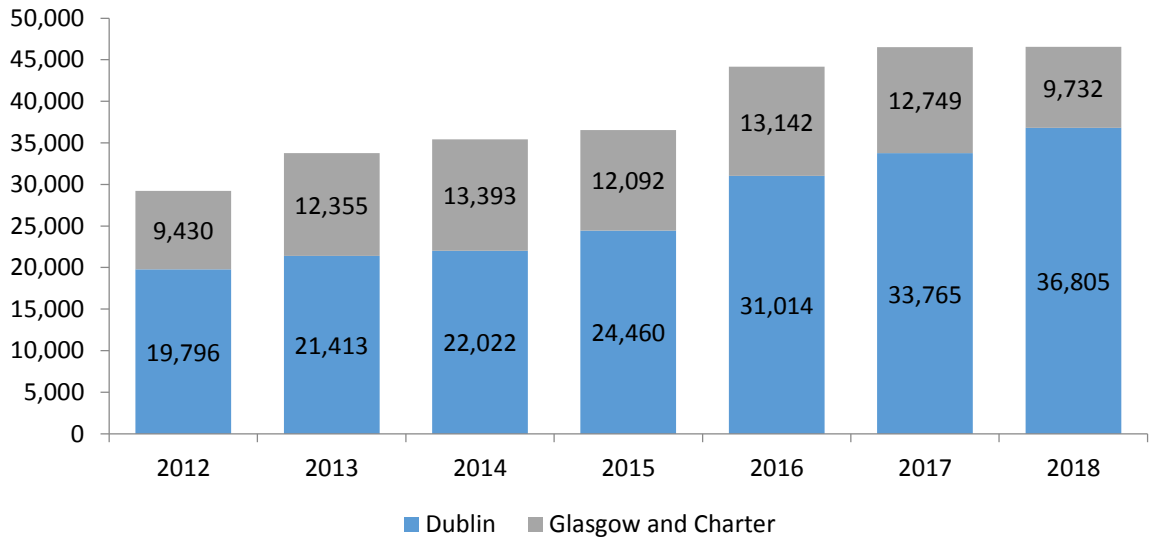
Airport

Service offering

Donegal Airport offers flights to/from two destinations: a twice-daily Dublin-Donegal route and a once-daily Dublin-Glasgow route. While the operators of these routes have changed, with Stobart Air taking over the Dublin PSO route in 2015 and Aer Arann relocating the Glasgow service from Glasgow Prestwick Airport to Glasgow International Airport, these two services have been the only commercial services operating at Donegal Airport since 2010[12]. The Airport also handles a small number of private charter flights.

Figure 10 shows the number of passengers using Donegal Airport from 2012-2018. Total passenger numbers rose from around 29,000 in 2012 to around 46,500 in 2018. While passenger numbers on the Dublin route have increased every year over that timeframe, passenger numbers on other services have been around 12-13,000 every year between 2013 and 2017, before falling below 10,000 in 2018. The result of this is that the Dublin route has gone from carrying 62% of the airport's passengers in 2014 to handling 79% in 2018.

Figure 10: Number of passengers handled at Donegal Airport



Passenger profiles

In mid-June 2013, Donegal Airport carried out a random survey of 144 passengers[13]. In this survey, 45% of respondents resided in the Glenties electoral area (including Dungloe and Gweedore), 9% in Donegal, 7.5% in Letterkenny and 2.75% in Stranorlar electoral areas (The Economic Intelligence Unit, University of the Highlands and Island, 2015). This highlights the importance of the airport to the immediate local area, while simultaneously raising questions as to the practical catchment of the

[12] Aer Arann stopped operating services to/from Cork in March 2010.
[13] Some results of this survey are included in the Airport's 2015 Business Plan.

airport. Per the same survey, 58% of those surveyed used the airport more than 4 times a year and 11% used it more than 10 times a year.

Table 16 shows the breakdown of passengers by journey purpose. While 144 passengers isn't a large enough number to do deep analysis or make strong conclusions, it provides some illustration of why passengers use Donegal Airport. In particular, it is noteworthy that approximately a third of passengers stated their journey purpose was 'business', which would seem to indicate the value of the airport for that purpose. As the survey focuses on outgoing passengers, it does not provide information about the usage of the airport for incoming tourists. Neither does the information below specify the percentage of outgoing passengers who are departing following a vacation in the region.

Table 16: Journey purpose of Donegal Airport passengers, 2013 Passenger Survey

Journey Purpose	Proportion
Business	32%
Pleasure	36%
Holiday / Short Break	23%
Other[14]	9%

Land transport connections

In terms of land transport connections between Donegal Airport and the region, the Airport is approximately 1hr drive from Letterkenny, the biggest town in the county. In respect of the other large urban centres in Donegal, the airport is 1hr from Ballybofey, 1hr 15m from Donegal town, and is more than 1hr 30m from Buncrana.

With regard to public transport connections, there are no direct services connecting Donegal's major urban centres to the airport. The recently created 992 Local Link will provide bus services to/from the airport. The bus route is currently scheduled to have one dedicated airport service a day, Monday to Saturday, to and from Crolly. Passengers will be able to subsequently transfer to the 271 Local Link service which connects Crolly to Letterkenny. Journey times from the airport to Crolly are scheduled to take 15 minutes while the 271 Local Link service from Crolly to Letterkenny takes approximately one hour. There is one additional 992 service available to the airport (on demand) which departs twice daily, Monday to Saturday, from Dungloe.

PSO Scheme

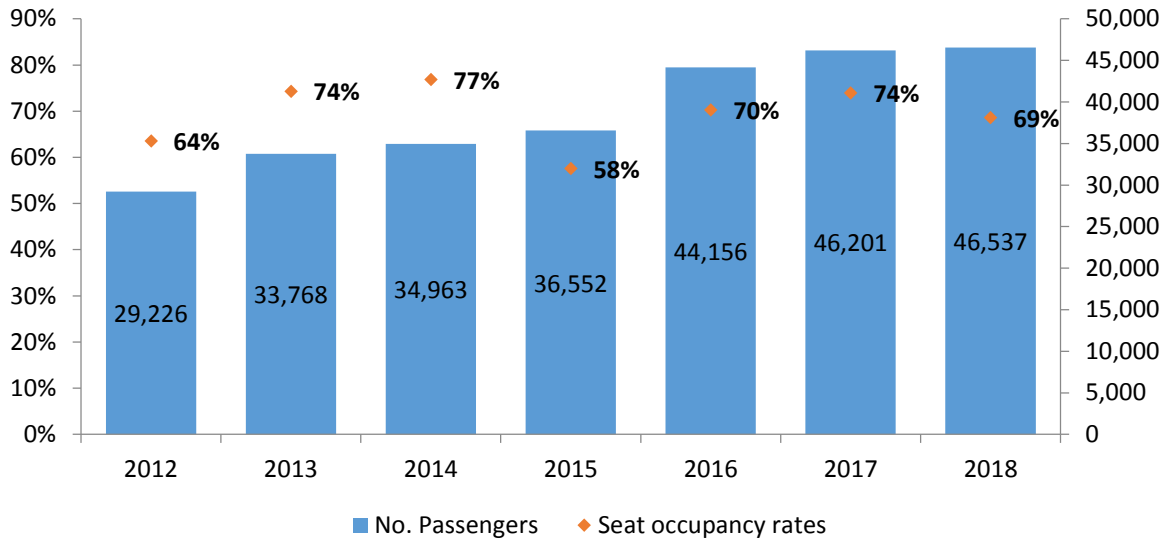
Service Usage

Figure 11 shows the occupancy rates of passengers per available seat on the Donegal-Dublin route. We see that overall passenger numbers have increased every year over 2012-2018. In addition, average annual seat occupancy has remained fairly steady at between 64% and 76% in this time period, with the exception of a significant fall to 58% in 2015. This fall, however, coincided with the

[14] Other includes health purposes, education or funeral.

2015 introduction of the Stobart Air PSO contract and higher capacity aircraft (48 seats). The rapid return to similar occupancy levels suggests that the service is highly valued by those who use it.

Figure 11: Annual average occupancy of PSO flights



Service Performance

Figure 12 shows annual delay rates for 2012-2018. With the exception of a spike in 2015 to 11.67%, the rate of flight delays has been relatively steady at around 5%. Annual delay rates have thus been well below the 20% maximum threshold over this time period. Indeed, it may be worth considering setting a lower delays target in future PSO contracts, given the large gap between the current target and realised delay levels.

Figure 12: Donegal PSO delay rates, 2012-2019

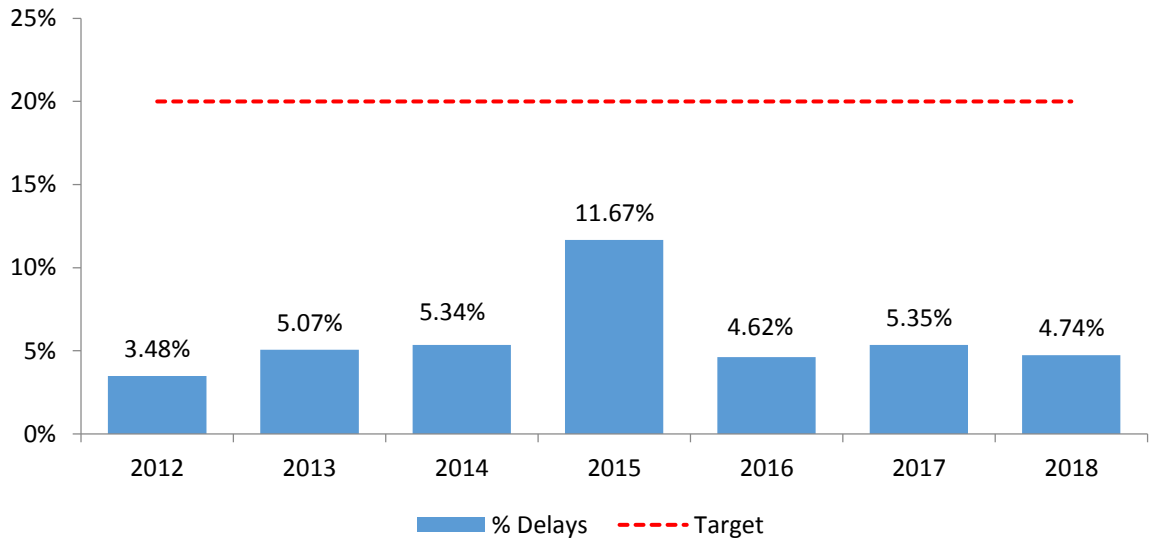
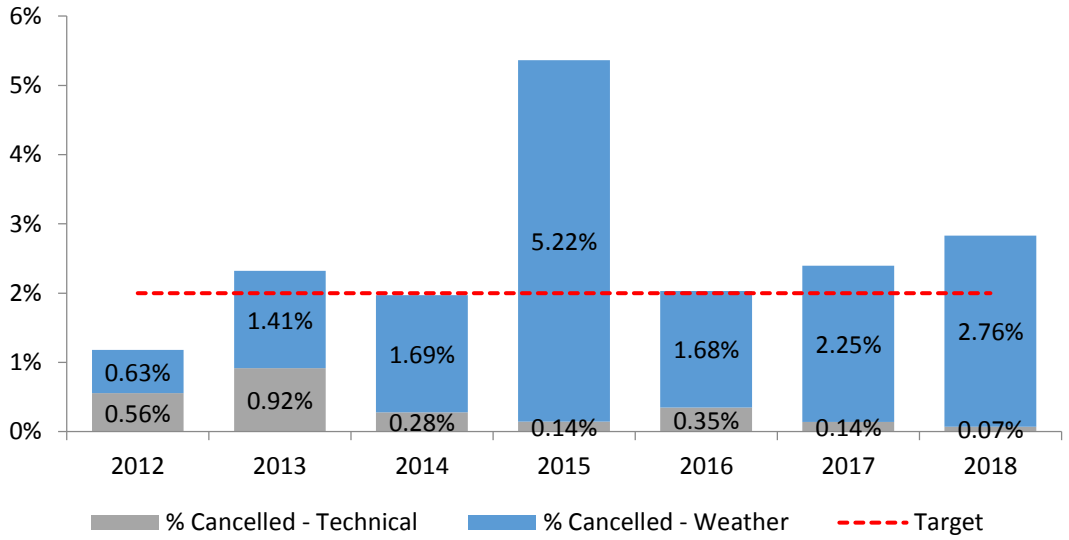


Figure 13 shows cancellation rates over the same period. Cancellations for technical reasons over this period have remained well below the 2% threshold over this timeframe. Weather-related cancellations are not in the scope of the PSO target, but are also shown here—they have generally consisted of 1-2% of flights, with the exception of 2015 when they are above 5%.

Figure 13: Donegal PSO service cancellation rates, 2012-2019



Travel Times

The listed journey time of the PSO route is 55 mins on the Donegal-Dublin direction and 65 mins on the return journey. For passengers living in, or travelling to, the hinterland of the airport, this might suggest a journey time of approximately 3hr 30m to Dublin City Centre[15]. This suggests a journey time saving of 40 mins to 1 hour over travelling by road. However, a number of Donegal's larger towns are located an hour or more from the airport, with no public transport links, meaning both a considerably longer journey time and a continued need to use private car.

Another use of the PSO route for passengers, however, is as a connection to another destination via Dublin Airport. In their 2013 passenger survey, 34% of passengers flying to Dublin said that they were flying there to get a connecting flight to another destination. Of those, 13% were travelling to the UK, 43% to the Rest of Europe, and 44% to the rest of the world. This illustrates the utility of the PSO route in enabling wider international connections for residents of Donegal.

Travel Costs

The standard price of a one-way ticket on the Donegal-Dublin PSO route is €45[16]. This compares with a one-way bus ticket cost of €15.75 (from Letterkenny) and €15.40 (from Donegal)[17] which, as discussed previously, have journey times of up to 4 hours. From these towns, then, the bus offers a

[15] Assuming 30 mins to Donegal Airport, arriving 1 hour before flying, an hour flying, and an hour from landing to reaching Dublin City.

[16] Schedule 3, Paragraph B of the PSO contract for the Kerry and Donegal PSO services states that:

a) A minimum of 80% of the minimum daily passenger seat capacity, each way, as specified at 1 above, will be made available by the Contractor at a fare not exceeding €80 each way.

b) No fare restriction will apply to the balance 20% of the minimum daily seat requirements on the routes.

[17] Source: Bus Éireann

cheaper journey to Dublin than the PSO route. In terms of the region surrounding the airport to these towns, the airport offers a significantly lower travel time than travelling to one of these towns to use the bus, at a still-affordable price.

Emissions

While emissions from international aviation fall under the EU Emissions Trading Scheme, domestic aviation, including Ireland's two PSO routes, are part of Ireland's national inventory.

A key challenge facing Ireland in the coming decades will be meeting its climate change targets. Climate change is a global issue that requires a coordinated response at domestic, national and international level. Ireland's commitments on climate change action are formed by policy drivers including international and EU-level agreements to which Ireland is a signatory. Ultimately, Ireland is required to achieve an 80% reduction in CO_2 emissions on 1990 levels, for the electricity generation, built environment and transport sectors. The Climate Action Plan 2019 (Government of Ireland, 2019) sets out a detailed sectoral roadmap to deliver emissions reductions over the period 2021 to 2030.

Domestic aviation accounts for only 0.2% of Ireland's emissions[18], and it is therefore not explicitly considered in the Climate Action Plan. Nonetheless, travel by air is considerably more carbon intensive than land travel. This this should be weighed against the connectivity benefits provided by PSO air services when assessing the case for renewing these services.

Ireland West Airport Knock

Airport

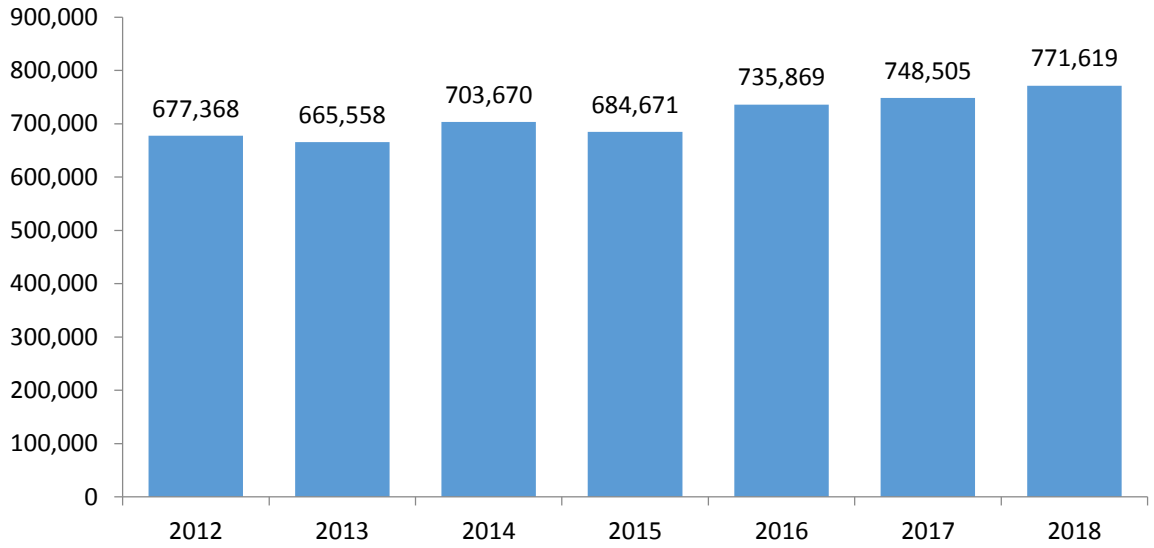
Service Offering

IWAK currently has the most expansive range of destinations available of the regional airports. The UK and Spain account for most of the routes available to and from the airport with nine and seven destinations respectively. There are an additional eight routes to various destinations including Lourdes, Cologne and Milan[19]. While all the flights to UK destinations operate on a year round basis, the majority of other destinations serviced by the airport are provided on a seasonal basis, mainly during the summer months. The current routes are operated by a variety of airlines including Ryanair, Aer Lingus and Flybe.

As Figure 14 highlights, the number of passengers utilising the airport has been steadily increasing in recent years. In 2018, 771,619 passengers passed through the airport, a 14% increase since 2012. As there is no domestic air service operating currently out of the airport, all passengers recorded using the airport are exclusively travelling on an international basis. IWAK offers the most potential in becoming a self- sustaining commercial operation in terms of passenger numbers. However, like all other airports in the regional airport programme, it is still below the annual 1 million passenger figure regarded by the EU guidelines as the threshold for an airport to begin to achieve long term commercial viability.

[18] Source: Sustainable Energy Authority of Ireland
[19] Source: irelandwestairport.com/flight_information

Figure 14: Number of passengers handled at IWAK

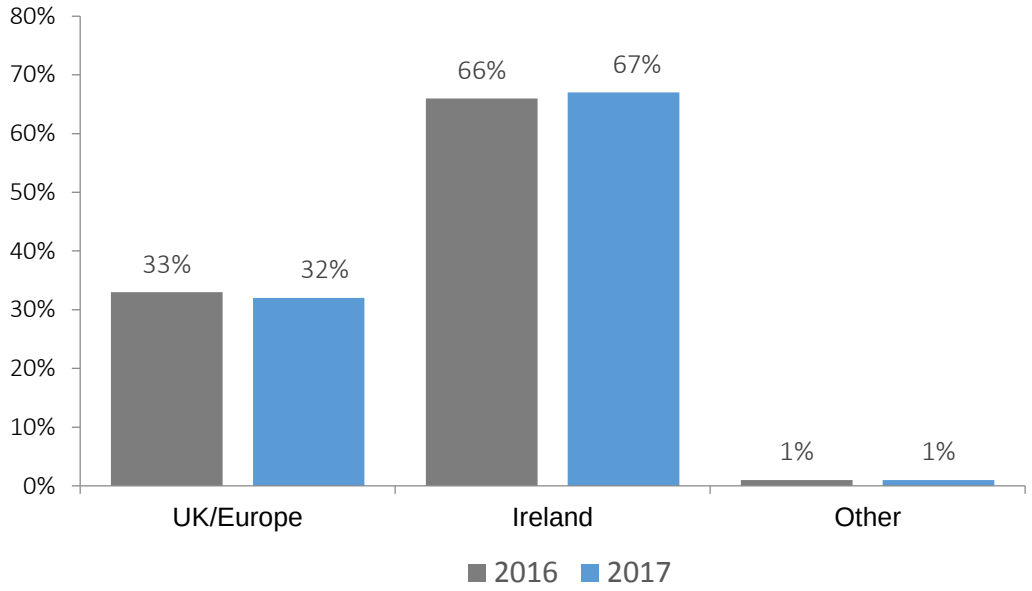


Passenger profiles

IWAK has carried out a number of formal passenger surveys in recent years. The survey results indicate that the airport is primarily used by residents of counties Mayo, Galway and Sligo. As Figure 15 shows, 67% of the journeys in 2017 from the airport originated in Ireland, with the majority of passengers travelling for holiday purposes at 72%. Visiting family and relations was the second highest category in the same year at 21%. Only 5% of surveyed passengers in 2017 stated that the purpose of their journey was business-related. Surveyed users of the airport are mainly 35 years or older with 70% of those surveyed in 2017 being aged between 35 and 64 years.

Figure 15: Origin of Journeys among surveyed passengers, 2017[20]

[20] Source: Ireland West Airport Knock



A REDC survey carried out in 2018 on behalf of the airport highlighted the importance of the UK routes to the airport. The journey purpose of the majority of passengers on the UK routes was to visit friends and family. About a third of departing passengers surveyed who are resident in the UK held Irish passports indicating that Irish expats are an important user group for the airport. The 2018 survey also showed that foreign visitors mainly use the airport to access counties Mayo, Galway and Sligo and that the Wild Atlantic Way is a major attraction for those travelling to IWAK for holiday purposes. Surrounding counties such as Leitrim and Donegal also see visitors arriving via the airport.

Land Transport Connections

IWAK is directly served by two Bus Éireann routes, the 64 Galway-Derry and the 440 Athlone-Westport. These bus services stop six and five times daily respectively at the airport. There are no rail links available in the locality of the airport but there are a number of rail links serving the wider region including the Dublin–Westport Line and Dublin- Sligo line. The nearest rail station is located in Ballyhaunis, 22 km from the airport.

Kerry Airport

Airport

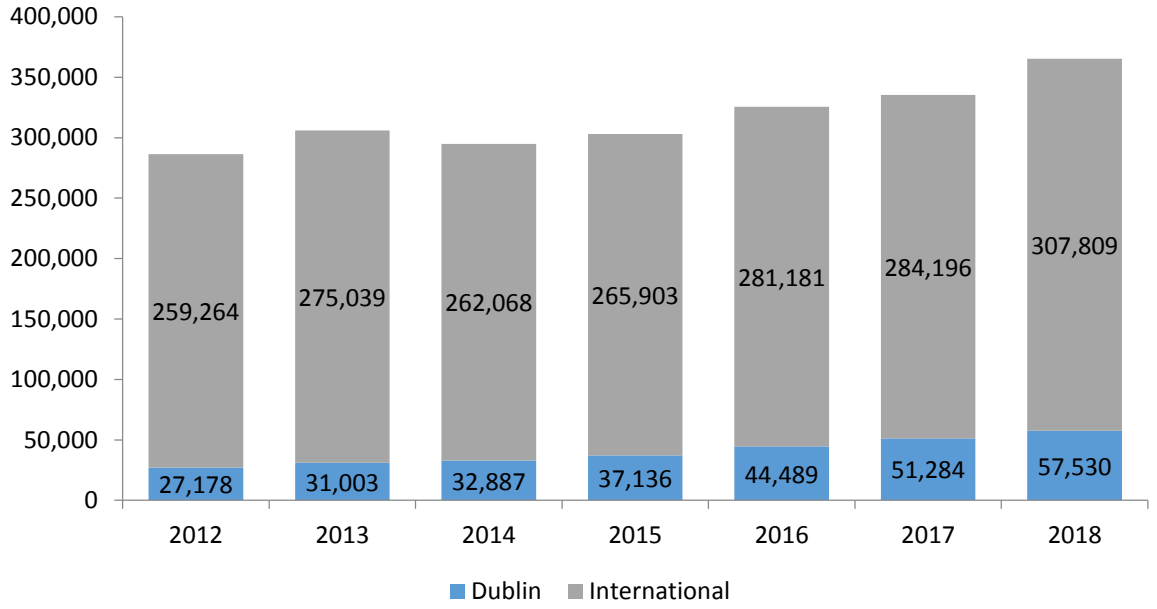
Service Offering

Kerry Airport currently offers two daily flights to and from Dublin with a third additional flight every Sunday.[21] This service is currently operated by Stobart Air. Kerry Airport also handles flights to and from a number of international destinations including London, Frankfurt, Berlin and during the summer season, Faro and Alicante. All of these services are currently provided by Ryanair.

[21] Source: Kerry Airport Summer Timetable 2019

Figure 16 shows the number of passengers handled per annum from 2012 to 2018. Passenger numbers have been steadily growing over the period, rising from 286,442 in 2012 to 365,339 in 2018. Both domestic and international passenger numbers have increased since 2012. In particular, demand for the domestic PSO service has grown rapidly, increasing 112% from 2012 to 2018. International passenger numbers grew 19% in the same timeframe. While passenger numbers have increased in recent years, it should be noted that the total of 365,339 in 2018 is still far below the 1 million passenger figure cited in the EU guidelines where regional airports begin to become commercially viable enterprises.

Figure 16: Number of passengers handled at Kerry Airport



Passenger Profiles[22]

While Kerry airport has not officially carried out a detailed passenger survey recently, anecdotal observations made by airport management of passengers passing through the airport suggest that the majority of the passengers utilising the airport each year are engaged in tourism-related activity. In particular, the international services serving Faro and Alicante, provided by Ryanair, are mainly used by Irish holiday makers. Based on an observation of a high proportion of high frequency users, it was suggested that the Dublin PSO service mainly handled business travellers.

Land Transport Connections

Kerry airport is less than a 20 minute walk to Farranfore Station which is served six times daily each way by trains travelling from Tralee to Mallow, where transfers to Dublin or Cork rail services can be made. In addition to these services, there is one daily direct service to Heuston available from the station. Compared to the stations in both Killarney and Tralee, footfall at the Farranfore is quite low, with a daily average of 25 boardings and 36 alightings.[23] The airport also currently benefits from four

[22] Source: general observations made by Kerry airport management. No formal passenger survey has been carried out in recent years

[23] Source: 2018 Rail Census

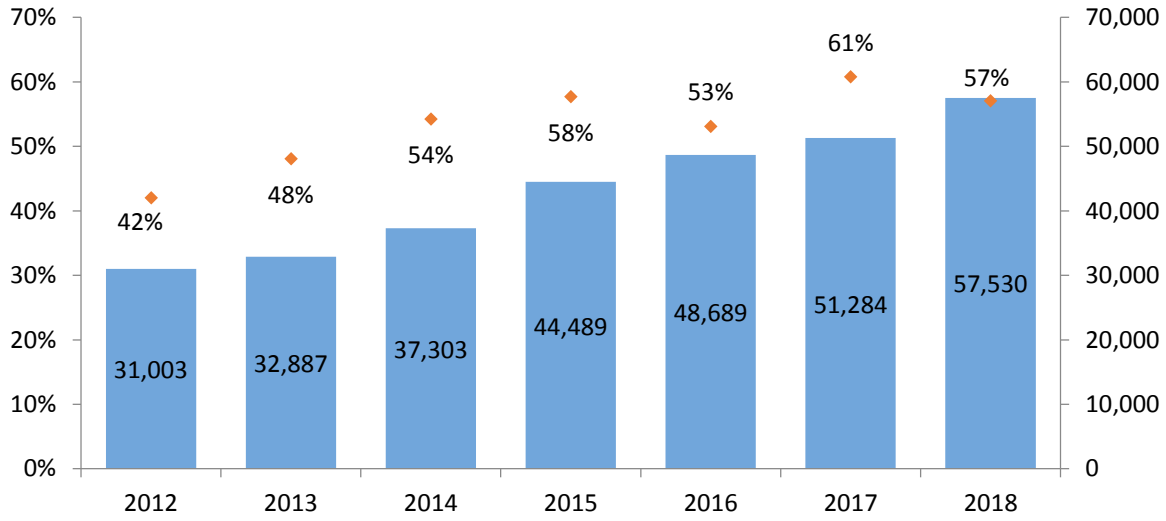
bus routes that stop at the terminal building and which provide regular service to both nearby Tralee and Killarney and further afield to Cork, Limerick and Rosslare Europort.

PSO Scheme

Service Usage

Figure 21 shows annual passenger numbers and the average occupancy of flights on the Dublin PSO route to and from Kerry airport. Passenger numbers on the Dublin PSO route have steadily increased in the last number of years although the average occupancy rate of flights has been slightly more volatile. As previously noted, the users of the PSO route are more likely to be travelling for business and leisure purposes than those flying to international destinations.

Figure 17: Kerry PSO Passengers & Average Annual Seat Occupancy Rate

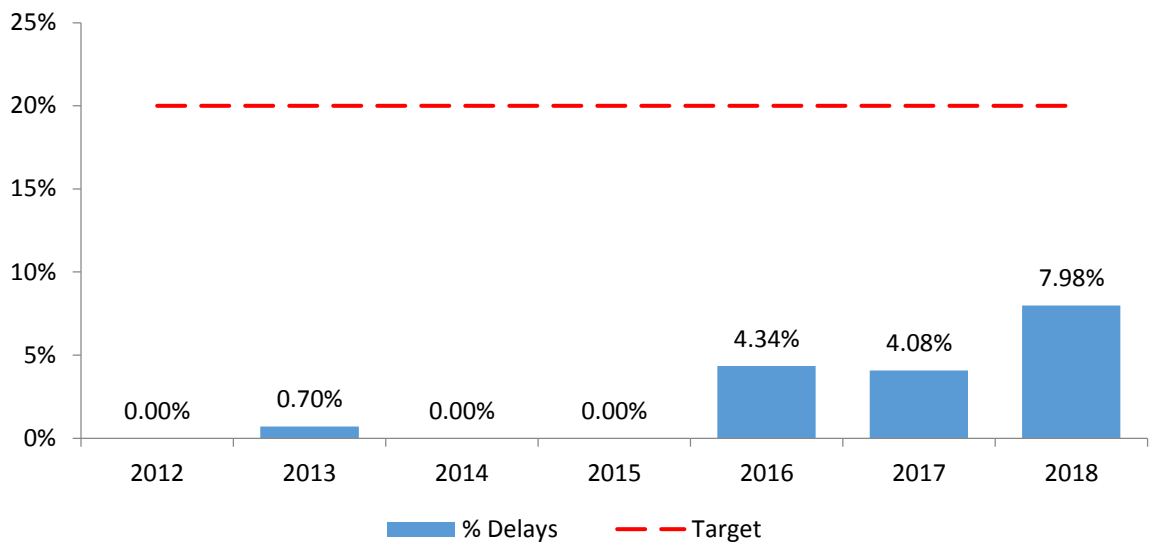


Service Performance

Figure 18 shows the delay rates of Kerry Airport's PSO flights[24]. Annual delay rates are well below the maximum threshold of 20% permitted under the current PSO contract. However, performance has slipped in the years since 2015, with a large jump in delay rates in 2018 to almost 8%. The Irish Aviation Authority cited that across Europe as a whole, delays more than doubled in 2018[25] implying issues in the wider industry may have affected Kerry Airport's performance in terms of delays.

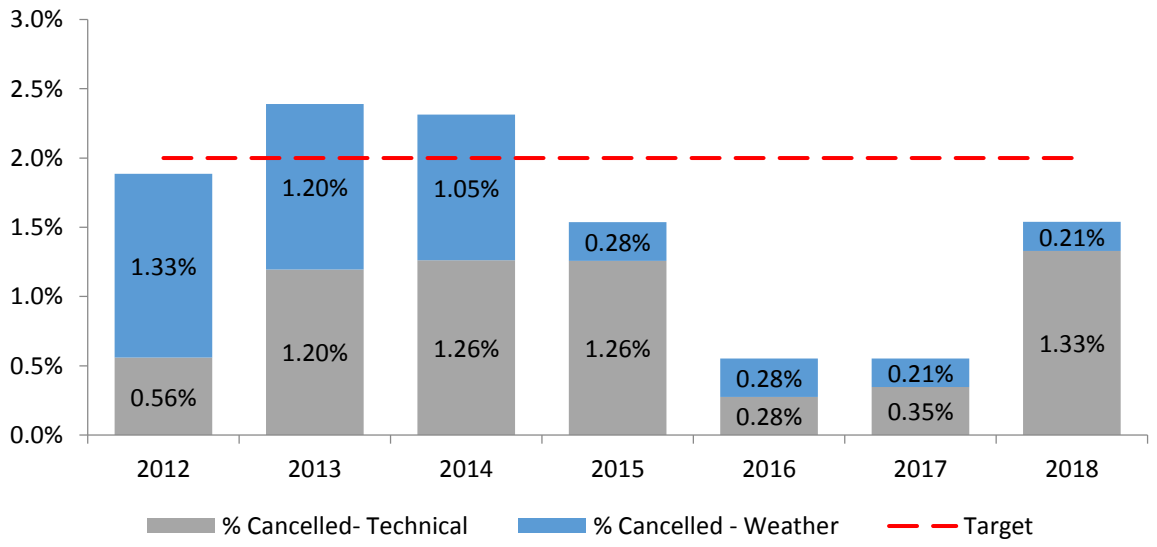
Figure 18: Kerry PSO service delay rates, 2012- 2019

[24] Delays recorded are for instances where a flight was delayed for more than 30 minutes
[25] Irish Aviation Authority, Customer Care Report 2018



Kerry Airport has experienced an average cancelation rate of 1.54% from 2012 to 2018. Weather related cancellations averaged 0.65% of flights over this period while technical cancellations averaged 0.89% of flights. As Figure 19 highlights, weather cancellations have decreased substantially since 2014. The rate of technical cancellations has remained more consistent over the period although both 2016 and 2017 saw performance improvements. Overall, cancellation rates for PSO services have been satisfactory since 2014 relative to the 2% threshold permitted under the current PSO contract.

Figure 19: Kerry PSO service cancellation rates, 2012- 2018



Travel Times

Flight times from Kerry to Dublin take approximately 1 hour while return flights from Dublin take 1 hour 5 minutes. For passengers living within the immediate 60-minute catchment area of the airport, and accounting for waiting times, actual journey times to Dublin city centre may take 3

hours 30 minutes[26]. This represents a time saving of at least 15 minutes compared to using the train and 50 minutes saving given the longest possible journey time by car. Taking the train from Farranfore station can take up to 3 hours 45 minutes to reach Dublin Heuston[27].

Travel Costs

A one–way ticket for the Kerry – Dublin PSO route can be generally obtained for €47 euro under the current provisions of the PSO contract[28]. In comparison, the cheapest one way ticket for the train from Farranfore station to Dublin Heuston costs €24. Other available rail ticket types range in price up to €54.49 for a business class seat.

Emissions

See discussion of Donegal PSO.

Waterford Airport

Airport

Service Offering

Waterford currently has no commercial services operating from the airport. This has been the case since 2016. A number of routes were available from Waterford to destinations in both Europe and the UK. More recently, prior to the complete cessation of commercial flights, the airport was offering routes to just four destinations in the UK; Southend, London Luton, Manchester, and Birmingham. From 2013, the availability of services to these UK destinations fluctuated and gradually declined leaving just the London-Luton route in operation by 2016.

Conclusions

The analysis and metrics set out in this section lead us to a number of high level findings:

- Many of the larger urban areas in Donegal, including Letterkenny, are at the edge of the one-hour catchment area of the airport. In addition, limited public transport services may present a disincentive to use the airport to incoming tourists or business travellers.
- Much of the increase in passengers at Donegal Airport has been users of the PSO service. It is worth noting that the service does not provide a significant time or cost advantage, relative to other modes to travellers aside from those in the airport's hinterland, though the 2013 passenger survey suggested around a third of passengers use it for onward connections from Dublin Airport.
- Tourism is a significant component of local economic activity in Kerry—thus the airport's connections with destinations such as Berlin and London are valuable. The possibility to

[26] Assuming 30 mins to Kerry Airport, arriving 1 hour before flying, an hour flying, and an hour from landing to reaching Dublin City.
[27] Source: Irish Rail
[28] Schedule 3, Paragraph B of the PSO contract for the Kerry and Donegal PSO services states that:
a) A minimum of 80% of the minimum daily passenger seat capacity, each way, as specified at 1 above, will be made available by the Contractor at a fare not exceeding €80 each way.
b) No fare restriction will apply to the balance 20% of the minimum daily seat requirements on the routes.

transfer flights at Dublin airport using the PSO route also enhances Kerry's connectivity to the wider world with additional benefits for both business and leisure purposes. Affordable seasonal flights to destinations in Spain and elsewhere are also available from the airport.

- In terms of Kerry's PSO service, passenger numbers increased substantially during the period under review. Despite this, they remain substantially lower than their peak in 2008, which may be a function of the region's good connections with Dublin, Cork and Limerick. Furthermore, planned improvements to the N21, the most direct road route to Dublin from the airport, may reduce current road journey times reducing future demand for the service.
- Passenger surveys suggest IWAK is an important gateway into and out of the Border, Midlands and Western (BMW) region. Foreign tourists also cite that the airport's location and its proximity to major attractions such as the Wild Atlantic Way is an important consideration when deciding to fly to Ireland.
- Over the long-term, IWAK may have the potential to be commercially sustainable, given its passenger numbers of just under 750,000 in 2018. Further expansion in terms of routes provided and the frequency of flights that operate are planned. However, the airport is particularly exposed to the UK market and is reliant on its British routes to drive traffic and passenger numbers for a significant portion of the year.

7. Conclusions

- The objectives of the Programme are found to be largely consistent with Government priorities in respect of regional development. The rationale for the policy approach is also consistent with the relevant EU Guidelines on State Aid rules. The provision of regional air services would be extremely challenging without Government intervention.
  With that in mind, it is difficult to offer strong conclusions on the Programme's connectivity objective, in light of a lack of strictly defined objectives or targets relating to connectivity—I.e. number of services, number of routes operated, number of passengers. Consideration could be given to being somewhat more prescriptive on connectivity indicators in future Programmes.
- Donegal Airport provides connectivity to Ireland's most isolated region, which is located more than four hours from Dublin. However, it serves a small population and is located relatively far from major towns in the area, most of which are located much closer to Derry Airport in Northern Ireland.
- Kerry Airport is located more than three hours from Dublin, but is within two hours of Cork and Limerick, as well as within two hours of Cork and Shannon airports. This may be a limiting factor on demand for PSO services. The airport serves a relatively large catchment, though this overlaps with that of both Cork and Shannon.
- IWAK lies on the primary route between Galway and Sligo. It also serves as the most accessible airport for a large part of the North West of Ireland. In its absence, a large region of Ireland would lack convenient access to international flights.
- The catchment area for Waterford airport captures 380,000 people, though it overlaps somewhat with Cork and Dublin airports. While the absence of the airport would mean that residents of Waterford City and the South East are around 2 hours from the nearest airports, this must be balanced against the lack of services currently being provided. The proposed lengthening of the runway may attract airlines which can land larger aircraft, but the current lack of services may also imply a lack of demand.

- Donegal, Kerry and IWAK have all seen significant passenger growth in recent years, in line with the recovery of the wider economy. Despite this, increased safety and security requirements as well as improved Government finances have enabled subvention per passenger for operating costs to increase for the airports in recent years.
- Donegal and Kerry PSO services have seen significant passenger growth in recent years, in line with the recovery of the wider economy. As a result, PSO subsidies per passenger and per seat have decreased substantially since 2012. Should PSO services be renewed beyond the current contract, the revenue impact of the increased passenger numbers may provide scope to reduce the overall level of subvention required by the airlines tendering for the contract.
- There is relatively little data on passengers using the regional airports. Factors such as origin, destination and journey purpose would be valuable in evaluating the impact of the airports. The next Regional Airports Programme should require surveys capturing passenger profiles.
- Tourism is an important factor in the use of both Kerry Airport and IWAK. In the case of Kerry Airport, it is worth examining the degree to which those trips are additional as a result of the existence of the airport, given the region's proximity to both Cork and Shannon airports.

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9. Quality Assurance

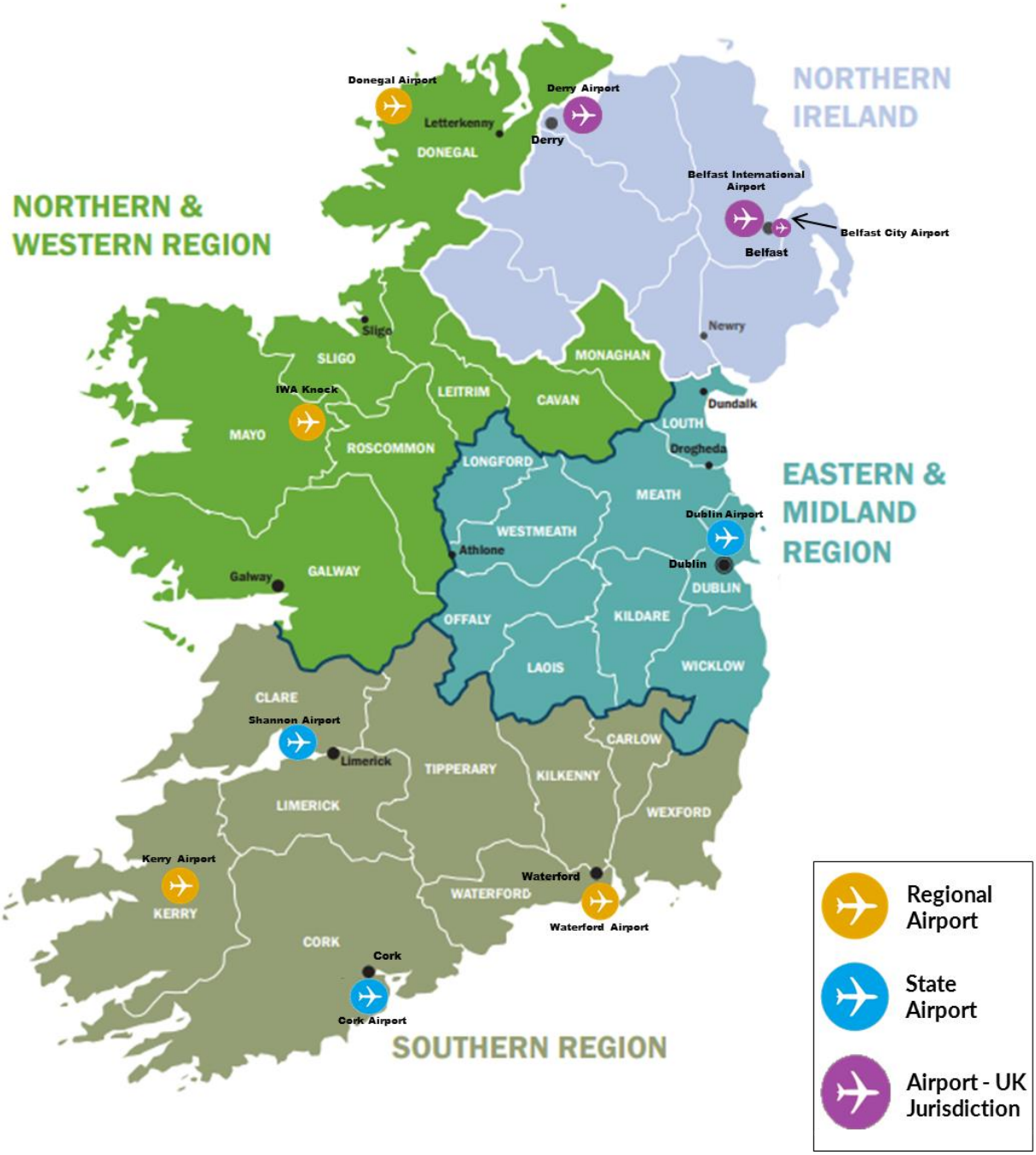
Quality Assurance Process

To ensure accuracy and methodological rigour, the author engaged in the following quality assurance process.

√ Internal/Departmental

- √ Line management
- √ Spending Review Sub-group and Steering group
- √ DTTaS Airports Division
- √ Transport, Tourism and Sport Vote

Appendix 1. Map of Irish Regions and Airports



Appendix 2. Policy and Regulation Context

National Aviation Policy

In August 2015, DTTaS published the National Aviation Policy for Ireland. The principal goals of the Policy are:

I. To enhance Ireland's connectivity by ensuring safe, secure and competitive access responsible to the needs of business, tourism and consumers;
II. To foster the growth of aviation enterprise in Ireland to support job creation and position Ireland as a recognised global leader in aviation; and
III. To maximise the contribution of the aviation sector to Ireland's economic growth and development.

Focusing on regional airports, the Policy sets out the policy position that "Ireland recognises the important role that regional airports play in their areas and in regional development" and sets out the following actions:

a) Ireland will implement an EU approved Framework (Regional Airports Programme 2015 – 2019) of supports for regional airports.
b) Exchequer support for operational expenditure at regional airports will be phased out over a maximum period of 10 years, in accordance with EU Guidelines.
c) Exchequer support for capital expenditure will be limited to safety and security related expenditure.
d) Clear business plans will be required from the airports seeking supports. In considering funding for regional airports, the Department will take account of the level of regional involvement, including investment by local authorities and/or business.
e) From 2015, PSO contracts, for Donegal/Dublin and Kerry/Dublin air services will run for two years initially and, subject to a satisfactory review after 18 months, may be extended by a maximum of one year.

EU Guidelines and Regulations

Aid to airports

In 2005 the European Commission adopted Guidelines on the financing of airports and start-up aid to airlines departing from regional airports. These Guidelines specified the conditions under which certain categories of State aid to airports and airlines could be considered compatible with the internal market. Updated Guidelines were published in April 2014. In 2017 an amendment was made to the General block exemption Regulation extending the regulation to cover state aid to airports and sea ports.

The principle underlying the guidelines is that State aid can be highly distortive to competition and market outcomes, and that "only State aid which is proportional and necessary to contribute to an objective of common interest can be acceptable". Aid will be considered to contribute to the achievement of an objective of common interest if it: increased the mobility of Union citizens and the connectivity of the regions by establishing access points for intra-Union flights; or combats air traffic congestion at major Union hub airports; or facilitates regional development.

When considering State aid, it is important to note that the rules only apply where the recipient is an 'undertaking'. If an airport carries out both economic and non-economic activities, it is to be

regarded as an undertaking only with regard to the former. This means that non-economic activities fall outside of the scope of State aid rules. Non-economic activities include air traffic control, police, customs, firefighting activities necessary to safeguard civil aviation against acts of unlawful interference and the investments relating to the equipment and infrastructure necessary to perform those activities.

Guidelines relating to two different forms of support are relevant. These are:

i. **Investment aid to airports.** A maximum intervention rate of 75% investment aid may be awarded to airports with fewer than one million annual passengers. Subject to a case-by-case assessment and depending on the particular characteristics of each airport, investment project and the region served, intensity exceeding 75% may be justified in exceptional circumstances.

   Commission Regulation (EU) 2017/1084[29] noted that "the experience acquired in the application of the Guidelines on State aid to airports and airlines shows that investment to regional airports does not give rise to undue distortion of trade and competition, provided certain conditions are met [and should] therefore be covered by the block exemption in Regulation (EU) No 651/2014". This means that this investment aid is exempted from the requirement for the Commission to be notified regarding the aid, assuming it meets the conditions of the 2014 Guidelines, and other conditions set out within the Regulation.

   As investment aid to very small airports of less than 200,000 passengers per annum is unlikely to result in "significant distortion" of market competition, Commission Regulation (EU) 2017/1084 states that small airports are only subject to one of the two normal conditions regarding proportionate investment aid. As such, state bodies providing investment aid to small airports of less than 200,000 passengers per annum must ensure either that aid "should not exceed maximum permissible aid intensity" or ensure "the aid amount should not exceed the difference between the eligible costs and the operating profit of the investment".

ii. **Operating aid to airports.** The guidelines note that airports that have fewer than one million passengers typically struggle to cover their operating costs. For a period of 10 years ('the transitional period'), starting from 4 April 2014, aid may be provided to airports, if it contributes to the achievement of an objective of common interest. The maximum permissible aid amount during the entire transitional period will be limited to 50% of the initial funding gap for a period of 10 years. However, for airports with fewer than 700,000 passengers per year, the maximum permissible aid amount will be 80% of the initial operating funding gap for a period of 10 years. The guidelines do note, however, that "if a genuine transport need and positive externalities for a region can be established, investment aid to airports should nevertheless continue to be accepted after the transitional period, with maximum aid intensities ensuring a level-playing field across the Union."

[29] COMMISSION REGULATION (EU) 2017/1084 of 14 June 2017 amending Regulation (EU) No 651/2014 as regards aid for port and airport infrastructure (and other things): http://www.eyde-etak.gr/ContentManagement/Files/ContentFiles3/EE_651_2014_trop_2017_1084_en.pdf

For airports with 200,000 or less passengers per annum, Commission Regulation (EU) 2017/1084 notes that operating aid, under certain conditions, "does not give rise to undue distortion of trade and competition". State bodies, in the event of providing operational aid to these small airports, are obligated by the 2017 Commission Regulation to ensure the aid amount given "does not exceed operating losses or a reasonable profit". Any airport infrastructure supported by operational state aid should also be open and have non-discriminate access. Furthermore, operational aid cannot exclusively benefit any airline that has business with the airport in question as this may constitute indirect state aid being provided to that airline

Public service obligation air services

The Communication from the Commission, 2012/C 8/03[30] provides that State aid falling outside of the scope of Decision 2012/21/EU (which only refers to air links with islands) may be declared compatible with Article 106(2) of the Treaty if it is necessary for the operation of the SGEI (Services of General Economic Interest) concerned and does not affect the development of trade to such an extent as to be contrary to the interest of the Union.

In addition, Articles 16 and 17 of EU Council Regulation (EEC) No. 1008/2008[31] set out the general principles for public service obligations and the public tender procedure for public service obligations, respectively. Article 18 of the same regulation outlines the criteria to be examined when reviewing the on-going funding of PSO services. These are:

a) The proportionality between the envisaged obligation and the economic development needs of the region concerned;
b) The possibility of having recourse to other modes of transport and the ability of such modes to meet the transport needs under consideration, in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connections and suitable timings;
c) The air fares and conditions which can be quoted to users;
d) The combined effect of all carriers operating or intending to operate on the route."

The 2015-2019 Regional Airports Programme was developed in line with these Guidelines and Regulations.

[30] European Union framework for State aid in the form of public service compensation: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:008:0015:0022:EN:PDF
[31] REGULATION (EC) No 1008/2008 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 September 2008 on common rules for the operation of air services in the Community (Recast): https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008R1008&from=en