



MID - WEST REGION

EMBRACING THE CHALLENGES AND OPPORTUNITIES OF 'IRELAND-US OPEN SKIES'

A business and employer input for the Economic and Tourism Development Plan for the Greater West of Ireland



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EXECUTIVE SUMMARY

This report sets out measures to ensure a sustainable economic future for Shannon International Airport and the greater west of Ireland region. Following the announcement by the Minister for Transport, Martin Cullen in November 2005, 'Ireland-US Open Skies' is now a reality.

The Ireland/US Air Bilateral Agreement, first negotiated in 1945, governed that every transatlantic service entering Irish air space was obliged to stop in Shannon. It was subsequently amended in 1993 when the 'stopover' element was effectively removed'. Under the terms of the current agreement, Ireland operates a dual gateway policy for transatlantic flights with the two Irish gateways being Shannon International Airport and Dublin International Airport. The revised agreement included a provision that each US and Irish airline providing scheduled services between the US and Shannon could also introduce direct scheduled non-stop services between the US and Dublin, provided that an equal number of non-stop services operated in both gateways on a twelve-month basis. This one-for-one ratio is to be changed from November 2006, allowing any airline to serve any Irish airport from any point in the US from April 2008.

The business community in the Mid-West firmly believes that the Mid-West and greater west of Ireland region has contributed to Ireland's economic success and that Shannon International Airport has contributed significantly to the region's development. This report presents the views of the business community in Limerick, North Tipperary, Clare and Galway on the potential impact on their businesses and on the region of 'Open Skies'. The message from employers is that Shannon International Airport is hugely important to business and that 'Open Skies' will have implications for the business community and the tourism sector of the greater west of Ireland region. Shannon International Airport

and the region must now embrace the challenges and opportunities presented by 'Ireland-US Open Skies'. Action is required from the Government to counterbalance or pre-empt any negative impact so that all opportunities can be fully embraced.

The Enterprise Strategy Group report *Ahead of the Curve*² (p.33) states: 'in a global economy, people, goods and information must be able to move from place to place quickly, reliably and efficiently. Enterprise will thrive only if the physical infrastructure and communications networks are efficient and adequate for international trade'. IBEC's National Infrastructure Strategy 2005 adds that a modern infrastructure network in Ireland is essential for national competitiveness, economic growth, balanced regional development and quality of life.

Shannon International Airport is the gateway to the greater west of Ireland. International air services are the life-blood of the business and tourist community. Shannon currently offers excellent direct connectivity to the United States. The airport is served by six transatlantic carriers: Aer Lingus, Air Canada, American Airlines, Continental Airlines, Delta and US Airways. There are currently 46 transatlantic services operating each week from Shannon – including daily services to Atlanta, Boston, Chicago, New York and Philadelphia – with an additional daily service during the summer months to Toronto. Transatlantic passengers increased to 713,000 in 2005, accounting for 35% of the airport's terminal passengers. Aer Lingus is Shannon's number one service provider, contributing 400,000 scheduled transatlantic passengers.

In March 2004, IBEC Mid-West published 'A Business Perspective on the Way Forward for the Mid-West'³. The business report, which highlights key business issues in the region,

identifies Shannon International Airport as being of crucial significance to the development of industry, tourism and employment. The report identified an EU-US open skies agreement as being of particular importance to the future development of Shannon International Airport. At this juncture, it is not possible to provide a definitive answer as to which services will be affected by the new policy. Airlines will have the freedom to choose frequency of services, daily or year round, whether to stop in Ireland and destinations in the US. The only certainty is that as airlines seek to maximise profits, every airline will fully consider its options.

In early December 2005, IBEC Mid-West, IBEC West, Ennis Chamber of Commerce and Shannon Chamber of Commerce surveyed upwards of 700 member companies in Limerick, Clare, North Tipperary and Galway. A total of 123 companies responded to the survey. The respondent companies employed over 20,000 people in 2005. Total turnover of respondents amounted to €6.12 billion in 2005.

SURVEY FINDINGS

A key message from the survey of the business community is that 'Ireland-US Open Skies' will have a positive impact on the Irish economy. The west of Ireland will also experience positive benefits provided investment is committed and delivered by the Government to ensure an even distribution of economic growth. Any delay or failure to invest will not only hamper the delivery of potential benefits to the west of Ireland, but will also undermine developments in the region which have taken place over the last fifty years.

¹ For a more comprehensive overview of the history of Ireland/US Bilateral Air Links see chapter 2 of EU/US Air Transport Agreement – Potential Impact on Ireland Frederik Sørensen Alan Dukens 2005

² ESG report *Ahead of the Curve*, published in July 2004

³ Available on the internet at www.ibec.ie/o/midwestreport

Without doubt, Shannon International Airport is a major driver of economic growth by attracting companies to the region and providing cost-effective international access for companies located in the greater catchment area. To illustrate the importance of Shannon International Airport, 85 (almost 70%) respondents indicated that they agreed or strongly agreed that 'the current level of access and connectivity from Shannon Airport to the US and Canada is vital for the company's continued competitiveness.' Over half of all respondents agreed that 'an increase in services from the US to Shannon International Airport would impact positively on expansion plans for the company in the west of Ireland'. The business community is convinced of the importance of proximity to Shannon International airport and the connectivity which it provides to the profitability of companies and the economic strength of the region.

Shannon's importance in relation to the tourism sector in particular, cannot be overstated. The sector is a major beneficiary of direct US services to Shannon Airport. 'Open Skies' is expected to result in an increase in US visitors to Ireland. A concern for the sector in the greater region is that if US services are concentrated in Dublin, the net impact of 'Open Skies' could be a reduction in US visitors if they cannot be attracted away from Dublin. Concerns in this regard are illustrated by the fact that 106 (almost 86%) respondents to the survey indicated that they agreed or strongly agreed that 'an increase in services from the US to Shannon International Airport will have a positive impact on the tourism sector in the west of Ireland.' The business and tourist community is convinced that the future development of the tourism industry is dependent on the level of access provided by Shannon International Airport.

The negative effects on tourism resulting from the aftermath of the events of September 11, 2001 and their impact on the aviation sector demonstrate the impact of reduced transatlantic services and the potential impact of 'Open Skies' if transatlantic services cannot be retained. Shannon International Airport experienced a significant reduction in air services in late 2001 with Aer Lingus, Delta and British Airways among the airlines that reduced capacity at Shannon. The number of tourists coming to Ireland dropped by 7 per cent from 6.27 million in 2000 to 5.8 million in 2001, while expenditure by overseas visitors dropped by over 1 per cent. In the Shannon region, total overseas revenue declined by €11.4 million from 2001 compared to 2000, with €10.5 million accounted for by the decrease in revenue from North America, which fell by 10.5%.

The analysis presented in this report indicates that a reduction of 100,000 US tourists, or 200,000 transatlantic passengers from Shannon, visiting the greater west of Ireland region following the introduction of 'Ireland-US Open Skies', could result in a 30% reduction in overseas revenue from North America, costing the tourist sector upwards of €75 million in lost revenue on an annual basis. This is equivalent to 5.8% of total tourist revenue in the western regions including Shannon, the west and northwest.

This report presents three possible scenarios in relation to transatlantic service provision from Shannon International Airport, based on different levels and frequency of services from the carriers. The report does not speculate on the likely outcome on services of 'Open Skies'. However, 25 respondents either agreed or strongly agreed with the statement that 'a substantial reduction in flights from the US to Shannon could trigger decisions to

relocate the company from Ireland'. As such, one in every five respondent companies would consider relocating if services were severely reduced. Many of these companies are US multinationals faced with the possibility of limited access by corporate headquarters. A serious reduction in connectivity could, in the medium to longer-term, affect future investment, with knock-on implications for employment and the sustainability of facilities in the west of Ireland.

Other companies, particularly service-based companies in areas such as insurance, telecommunications, motor sales, retail and accountancy identified a domino effect, whereby their business would be affected if the cost competitiveness of their clients, both multinationals and indigenous companies focused on the international market, was adversely affected over the medium term by the introduction of 'Open Skies'. The opposite is also true. If new business were attracted to the region, this would have a positive impact on the broader business sector based in the hinterland of Shannon International Airport.

MAKING IT HAPPEN FOR THE REGION

The economic hinterlands of the urban centres of Limerick, Ennis and Galway have developed significantly in the last decade with growth in population, employment, per-capita income and industrial output, along with the infrastructural development that has taken place in the form of new roads, business parks, retail, hotel and other commercial developments, tourism products and the entire third-level sector. The investment to foster balanced regional development has enabled Ireland to tackle poverty and address social exclusion. Shannon International Airport has been, and must continue to be, a key driver of economic and social development throughout the greater region.

Figure 1: Making it Happen for the Region



Figure 1 identifies the key interlinking components required to strengthen Shannon International Airport as an engine for balanced regional growth and development.

The key message of this report, encapsulating the views of companies in Limerick, Clare, North Tipperary and Galway, is that 'Ireland-US Open Skies' can be an opportunity if:

- A) Shannon International Airport becomes a fully resourced, debt-free and independent entity.
- B) Shannon International Airport is properly financed and cost competitive so as to provide a full range of supports for airlines in the

- development of new scheduled transatlantic services on a year-round basis, thereby substantially increasing passenger numbers.
- C) Infrastructure delivery is accelerated so that Shannon International Airport's accessibility is expanded significantly, creating a vibrant market demand for transatlantic services and ensuring Shannon can compete with Dublin, the country's dominant airport.
- D) A major multi-million euro annual tourism campaign in North America is undertaken for a minimum seven-year period, which promotes Shannon as the gateway to the greater west of Ireland region, commencing in autumn 2006.

Figure 1 highlights that these four elements must be delivered within the context of an economic and tourism development plan for the greater west of Ireland region. Action is required from the Government to counterbalance or pre-empt any negative impact of 'Open Skies' so that all opportunities can be fully embraced. If appropriate government decisions are not taken, the region will not be able to maximise its contribution to Ireland's economic performance.

Such a strategy should be implemented under the aegis of the next national development plan (NDP), which will run from 2007-2013.

A key priority of the NDP 2007-2013 is development and strengthening of the Atlantic Economic Corridor, which is emerging between Limerick and Galway. The first step in providing a platform for this corridor is completion of the Limerick to Galway dual carriageway. This entire route must be completed by the end of 2012, facilitating consistent travel times from Galway City to Shannon International Airport of less than 65 minutes.

Ireland will only achieve its full potential through balanced regional development. Business, irrespective of location, requires world-class infrastructure in terms of transport and supply-chain management, broadband, business property, energy, environmental services, education, training, marketing skills and R&D.

Shannon International Airport should be the catalyst for development of the greater west of Ireland region. 'Ireland-US Open Skies' provides an opportunity for the Government and everyone in the region to plan for and invest in our future.

CONTENTS

Executive Summary	3
Introduction	7
1. Impact of ‘Open Skies’ on Shannon International Airport	
■ Shannon International Airport passengers	9
- Total passengers	
- Transatlantic traffic by route 1996-2005	
■ Shannon Airport catchment area	10
■ Three potential scenarios	11
2. Strategic analysis of the potential impact of ‘Open Skies’ on business	
■ Impact on the economy in the hinterland of Shannon Airport	13
- Macroeconomic view of employment and income	
■ Impact on companies	14
■ Potential impact on Tourism	16
- Quantifying the potential impact on Tourism by Extrapolation	
3. Business priorities for economic and tourism development plan	
■ Shannon International Airport	20
■ Infrastructure	21
- Roads	
- Public transport	
- Telecommunications	
■ Enterprise development	22
■ Tourism	23
■ Implementation of economic and tourism development plan	23

INTRODUCTION

This report presents an analysis of the potential impact on the business and tourism community of the introduction of 'Ireland-US Open Skies' and sets out measures to ensure the economic future of Shannon International Airport and the greater west of Ireland region.

BACKGROUND

Mr Martin Cullen, TD, Minister for Transport announced on Friday, 11 November 2005 that a new Ireland-US Aviation Bilateral had been negotiated with the US Secretary for Transportation, Norman Mineta, within the context of a new EU-US Open Skies regime.

The details of the agreement are as follows:

- No change in the Shannon stop arrangements for a further 12 months until November, 2006.
- Transitional period commencing winter season (November) 2006, and finishing beginning of the summer season (April) 2008.
- During the transition period, the ratio of Dublin/Shannon flights will move from 1:1 to 3:1, so that for every one flight to or from Shannon, a carrier can provide three flights to or from Dublin. This ratio can be averaged out over the period of the transition.
- Irish airlines will have access to three additional destinations in the US from November 2006, over and above the four destinations currently being served.
- These additional three points will be nominated by the Irish authorities, and we have flexibility to change those cities during the transitional period.
- It was also agreed that there would be no restriction on code sharing into Ireland via points in the EU (this will facilitate Aer Lingus and American Airlines code-sharing from Heathrow into Dublin).
- Cargo-only services will not be subject to any Shannon stop requirement from November 2006.
- Full open skies between Ireland and the US from April 2008 in the context of an EU-US agreement.

Minister Cullen sought and obtained assurances from Aer Lingus that, in the context of a level playing field between the airline and its competitors, it will maintain the current level of transatlantic traffic (circa 400,000 passengers a year) with regular year round scheduled services between Shannon and Boston and New York.

Minister Cullen proposes to prepare an economic and tourism development plan in consultation with his colleagues, Ministers for Arts, Sport and Tourism and Enterprise Trade and Employment, to ensure that Shannon Airport sustains and grows transatlantic air services.

The current level of transatlantic services serving Shannon International Airport is presented in figure 2.

Figure 2: Direct transatlantic flights to/from Shannon Airport

Destination	Carrier	Return flights per week
Atlanta	Delta	7 (Daily)
Boston	American Airlines / Aer Lingus	10
Chicago	American Airlines / Aer Lingus	7 (Daily)
New York JFK	Aer Lingus	8 (Daily)
Newark	Continental	7 (Daily)
Philadelphia	US Airways	7 (Daily)
Toronto	Air Canada	7 (Summer Only)

Source: Timetable on Shannon International Airport website⁴ on 1 February 2006

Shannon International Airport currently offers comprehensive direct connectivity to the United States with daily flights to Atlanta, Boston, Chicago and New York.

REGIONAL RESPONSE TO 'OPEN SKIES' ANNOUNCEMENT

In early December 2005, IBEC Mid-West were invited to participate on a working group led by the Mid-West Regional Authority tasked by Minister Cullen with developing a regional submission to the Economic and Tourism Development Plan in the first half of 2006.

⁴ See www.shannonairport.ie

RESEARCH METHODOLOGY

In early December 2005, IBEC Mid-West, IBEC West, Ennis Chamber of Commerce and Shannon Chamber of Commerce surveyed upwards of 700 member companies in Limerick, Clare, North Tipperary and Galway on the potential impact of 'Ireland-US Open Skies' on their businesses. A total of 123 companies responded to the survey. The respondent companies employed a total of 19,756 employees in 2005. Total turnover of respondents amounted to €6.12 billion in 2005. Almost 60% of the respondent companies were Irish owned.

Of the 123 respondent companies, 30 were US and 3 Canadian multinationals that collectively employ over 10,000 employees. There are 75 US multinationals located in the Mid-West Region. The fact that almost 40% of these companies responded to the survey indicates the importance of the Open Skies issue.

This report assesses the impact of the change to Shannon International Airport's Dual Gateway Status on two distinct but related levels:

- A) The economic operation of Shannon International Airport
- B) Connectivity of individual businesses, the potential impact on foreign direct investment and implications for the Tourism sector.

Chapter One details passenger figures for scheduled transatlantic services to Shannon International Airport from 1996 to 2005. It proceeds to outline three possible scenarios, which could potentially emerge under the new 'Ireland-US Open Skies' regime. The report does not purport to present a prediction of what might happen as any of a multitude of scenarios involving varying levels and frequencies of services dictated by market forces could evolve.

Chapter Two assesses the potential impact on business and tourism of the introduction of 'Open Skies'. The analysis presents the feedback of companies to the questionnaire aided by analysis of 'tourism shocks' such as foot and mouth and SARS, which affected the tourism industry in the region over the last five years.

Chapter Three details the views of business on these priorities within the context of the commitment by the three Departments of Transport, Enterprise Trade and Employment and Arts Culture and Tourism to develop and implement an integrated response to 'Open Skies' in the form of an economic and tourism development plan for the greater west of Ireland region.

Impact of ‘Open Skies’ on Shannon International Airport

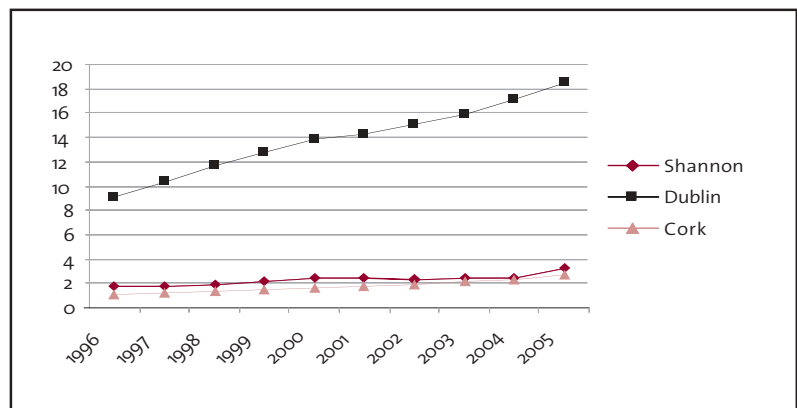
The importance of Shannon International Airport cannot be overstated. It is the key economic driver for business in the region. As the gateway to the entire western region, it is the catalyst for balanced regional industrial and tourism development. The announcement in November 2005 of ‘Open Skies’ presents a new strategic challenge for Shannon International Airport. While this policy change has been much heralded, the airport and greater region must still plan for what will constitute a massive change. Transatlantic traffic is the most profitable element of the business mix of the airport. Furthermore, Shannon International Airport has developed significant retail capacity on the strength of transatlantic passengers while a US immigration pre-clearance facility has operated from the airport for many years.

In assessing the importance of transatlantic traffic to Shannon, three possible scenarios are painted which could emerge under the ‘Open Skies’ regime. This report does not attempt to predict what might actually happen, as market forces could lead to the emergence of any one of a number of possible situations. The scenarios facilitate an analysis of what the airport, the region, government agencies and the Government itself can and must do to ensure firstly, the retention, and secondly, the development of new services from Shannon Airport to the United States and Canada.

SHANNON INTERNATIONAL AIRPORT PASSENGERS

Shannon International Airport had 3.3 million passengers in 2005 (see figure 3). Terminal traffic reached 2.6 million in 2005, a 35% increase on 2004. This includes over 710,000 transatlantic passengers, which is 36% of transatlantic passengers to Ireland.

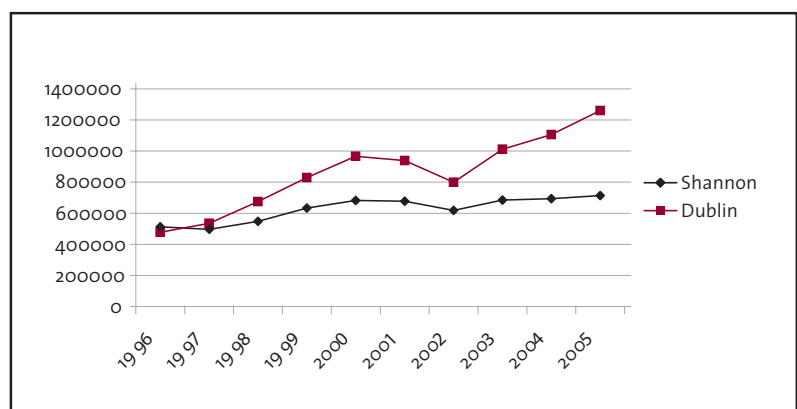
Figure 3: Passengers (Million) at Cork, Shannon and Dublin Airports



Shannon is much stronger than Cork in respect of freight while Cork is relatively strong on the passenger side, although lacking in transatlantic air services.

Shannon International Airport has enjoyed very strong passenger growth in the period 1996 to 2005 as can be seen in figure 4 below.

Figure 4: Transatlantic Passengers Dublin and Shannon Airport



Since the move from single to dual-gateway status for Ireland in 1993 (see figure 4), transatlantic traffic through Shannon continued to increase, but at a lower rate than traffic through Dublin. Transatlantic passengers accounted for 21.6% of Shannon International Airport’s passenger mix in 2005.

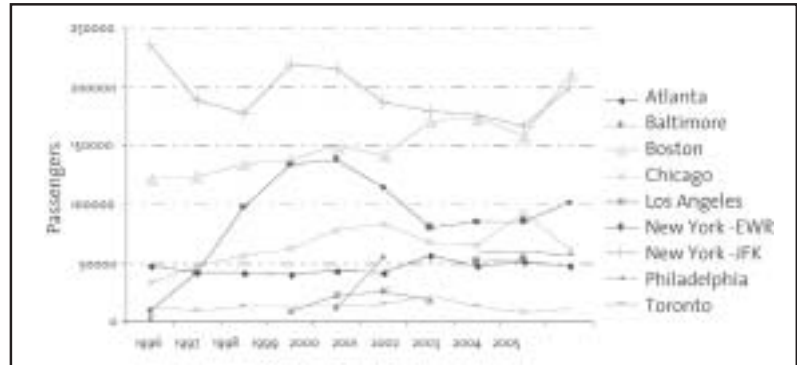
Shannon International Airport's transatlantic passengers by route

The number of scheduled passengers by transatlantic route from Shannon International Airport for the period 1996 to 2005 is presented in Figure 5. The two most popular services are Boston, over 211,000 passengers in 2005, and New York JFK, almost 200,000 passengers in 2005 with a further 100,000 travelling on the Newark service (scheduled traffic only – no charter traffic included).

The Baltimore and Los Angeles services no longer operate from Shannon. The Baltimore service operated by Aer Lingus began in 2000, stopped in 2001 after 9/11, recommenced in 2003, carrying over 50,000 people for two years, but was terminated in 2004. The Aer Lingus-Los Angeles service operates solely from Dublin, but from 1999 to 2002, this service also served Shannon. Currently, Los Angeles is served via Dublin and involves a change of aircraft.

Shannon is heavily reliant on revenue generated from transatlantic traffic. The revenue accounted for by transatlantic traffic is disproportionately higher than the 21.6% passenger mix achieved in 2005. Transatlantic traffic is the most profitable element of the business mix of the airport, given the levels of charges to airlines and the level of fares which the airlines charge. A significant reduction in services would seriously affect the future viability of the airport.

Figure 5: US Destinations from Shannon



Source: Shannon International Airport

SHANNON AIRPORT CATCHMENT AREA

In April 2005, according to the latest figures from the Central Statistics Office (CSO), Ireland had a population of 4.13 million people, an increase of 5.45% on Census 2002 figures.

The population in the catchment area for Shannon Airport is the population of the west of Ireland region. See figure 6 for breakdown by county.

Figure 6: CSO population figures 2002 and 2005 ('000)

		2002	2005 ¹	Change	% Change
State		3,917.2	4,130.7	213.5	5.49
Border		432.5	455.4	22.9	5.29
Dublin		1,222.8	1,160.1	-62.7	-5.13
Mid-East		412.6	452.4	39.8	9.65
Midland		225.4	242.9	17.5	7.76
Mid-West	N. Tipperary	61	352.3	12.7	3.74
	Limerick	175.3			
	Clare	103.3			
South East		423.6	451.9	28.3	6.68
South West	Cork	447.8	609.7	29.3	5.05
	Kerry	132.6			
West	Galway	209.1	406	25.7	6.67
	Mayo	117.4			
	Roscommon	53.8			

Source: CSO

While the population of the Mid-West increased by 12,700 people to over 352,000 between 2002 and 2005, the percentage increase is lower than that of the state overall.

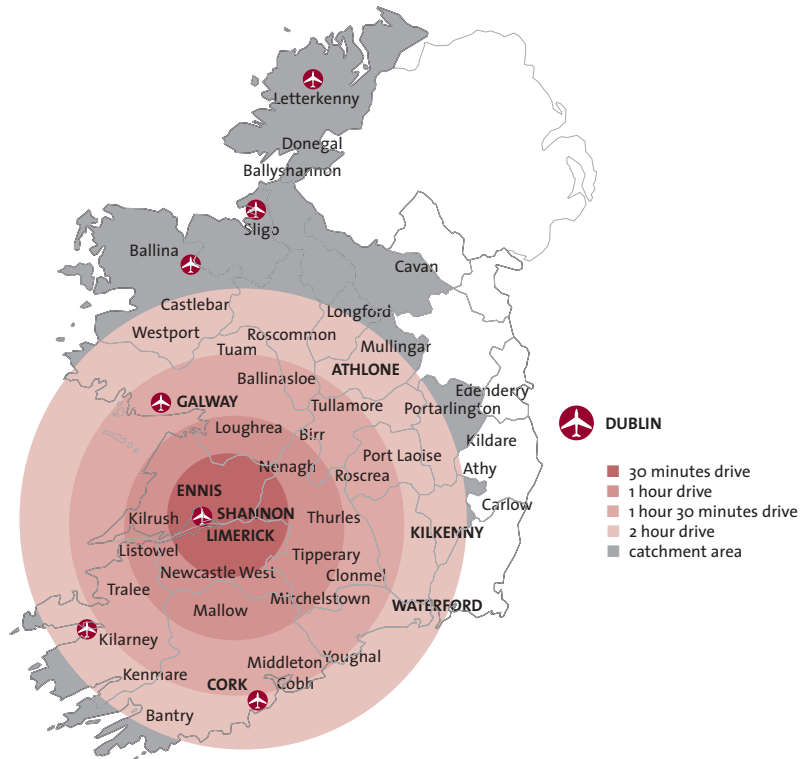
The potential catchment area for Shannon International Airport (see figure 7) including the South-West, Mid-West, West and parts of the Midlands and South-East Regional Authority areas is approximately 1.5 million people. However, the population of the effective catchment area of Shannon International Airport is less than 50% of this figure at present.

¹ Population and Migration Estimates April 2005 published by the CSO in September 2005. 2005 estimates are preliminary.

Using estimates of 2005 population figures, the population in the hinterland of Shannon Airport that is within one hour's drive is approximately 350,000 people. This increases to upwards of 650,000 when the drive time is increased to 90 minutes. Galway City is included in this figure but realistically, the current road network presents major challenges in guaranteeing that anyone travelling the 91 kilometres from Galway City to Shannon Airport will be able to do so in 90 minutes, particularly at peak traffic periods. For similar reasons, Tralee, at 131 kilometres, Killarney, at 137 km and Cork City, at 130 kilometres, are over 2 hours travel time from Shannon Airport.

The effective hinterland of Shannon International Airport for passengers travelling by bus is limited by the number of bus services serving the airport and the extended length of journeys involved. Improvements in the road network should attract service providers to increase service frequencies from a larger radius of major urban centres.

Figure 7: Shannon International Airport's Catchment Area



Source: Shannon International Airport

As can also be seen in figure 7, there are, within comparatively short driving times, increasingly aggressive and competing airports in Galway and Kerry seeking a share of the UK and mainland European markets while Knock and Cork could attract transatlantic carriers to commence services to the US or Canada.

THREE POSSIBLE SCENARIOS

The first step in considering the impact of the new policy on individual businesses in the region is to consider which services will be affected. Unfortunately, it is impossible to provide a definitive answer. Airlines will have the freedom to choose frequency of services, daily or year round, whether to stop in Ireland and destinations in the US. The only certainty is that, as airlines seek to maximise profits, every airline will fully consider its options. They will analyse whether costs can be reduced, efficiencies realised or markets grown by serving Ireland through one gateway, whether that be Dublin or Shannon. Three potential scenarios are presented in Figure 8.

Figure 8: Three scenarios for services under 'Open Skies'

Scenario one	Scenario two	Scenario three
The introduction of 'Open Skies' results in a significant reduction in US flights serving Shannon ie, no daily scheduled flights to Atlanta, Boston, New York, Newark or Philadelphia. Some carriers operate services during the summer season.	Aer Lingus provides year-round services to both New York and Boston for five years with a Chicago service to Shannon operating via Dublin. Some other US carriers operate services during the summer season or on a 'mid-week year round basis'.	The development of new and existing services by Aer Lingus and US carriers, resulting in a net increase in transatlantic passengers using Shannon Airport.

The pre-eminent factor that will motivate an airline to continue to operate services from Shannon over the longer term is profitability, as directly affected by factors such as load factor and yield management on a year-round basis. These are directly influenced by factors within the control of Shannon Airport Authority and other government agencies such as airport charges, supports for route development, tourism promotion and infrastructure development. To be the airport of choice for airlines serving Ireland, Shannon International Airport must:

- Provide a competitive structure of charges for airlines operating transatlantic services in addition to providing modern, efficient, user-friendly airport facilities within an operationally efficient model.
- Offer a full range of supports to open and develop new transatlantic scheduled routes. This may include support for Shannon-based airlines.

Another key element is market development. As the limited catchment area severely constrains the level of Irish originating passengers, a major promotional effort must be concentrated in the US market. Strong overseas tourism and leisure promotion of Ireland's western regions is required to stimulate demand. Facilitating business and other passengers from Ireland to the US is another key requirement in this regard.

Many more scenarios could be presented. As stated earlier, the likelihood of any particular scenario is difficult to gauge. However, each of the scenarios listed merits discussion. The Sørensen Dukes report (p.50) discusses a 'worst case scenario' in which Shannon-US links were drastically reduced, stating that in such a case 'it would be necessary to improve road links between west and east in order to facilitate the movement of inbound passengers out of the main arrival point in Dublin'.

The most significant national issue raised by Sørensen Dukes (p.41) is 'backtracking', whereby some visitors

to Ireland cross the Atlantic to London or to other transatlantic gateways in the EU and then take connecting flights to Ireland. 'It would not be realistic to assume that all the transatlantic traffic now backtracking via London and other gateways could be recuperated. It is also clear that the major US gateways are covered. However, with new services between Ireland and two to four additional important US gateways and improvement of existing services to daily service, we would expect that 30% to 40% of the indirect traffic could go direct to Ireland. Aer Lingus has publicly stated that it expects its transatlantic traffic to double when traffic rights to and from the US are liberalised. We believe that this can be achieved only if Aer Lingus is able to overcome the factors which currently give rise to backtracking.'

In a statement following a meeting in Shannon Airport in December 2005 of the Shannon Airport Marketing Consultative Committee, Mr Dermot Mannion, Chief Executive of Aer Lingus confirmed the airline's continued commitment to Shannon Airport, adding that Aer Lingus expect to continue to deliver at least 400,000 seats a year through Shannon into the future.

Air cargo is another key issue discussed by Sørensen Dukes (p.49). The report finds that 'cargo business could produce further opportunities for Shannon, which is in the middle of the transatlantic market. More and more airports on mainland Europe are experiencing environmental problems with night-time traffic. Shannon has the capacity and the location to capitalise on these difficulties.'

The Sørensen Dukes report (p.18) asked the question as to whether or not low-cost carriers might be attracted to enter the transatlantic market if an EU/US agreement were to become a reality. 'The experience in the US is that low-cost airlines have successfully entered the coast-to-coast domestic market with non-stop services. With that in mind, we would not be surprised to see low cost operators enter the transatlantic market.'

CONCLUSION

Shannon International Airport has a long and proud tradition as Ireland's gateway to the United States. Internationally recognised brands such as Bunratty and the Lakes of Killarney are synonymous with Shannon. The airport has the facilities and track record to cater for increased transatlantic activity and has strong relations with six transatlantic carriers. Shannon International Airport is targeting one million transatlantic passengers on a yearly basis by 2014, which is a 30% share of the Ireland-US direct market. The region also has strong economic and business ties with the United States. Shannon International Airport has presented a 'win-win' scenario for business and tourism on both sides of the Atlantic and for the airlines for over fifty years. As a result, Shannon has built a strong transatlantic market which has been underpinned by its gateway status. The challenge for the airport management is to build on Shannon's track record to optimise service provision into the future. However, the airport expects a 30% reduction in transatlantic traffic upon the introduction of 'Open Skies', a figure also presented by Sørensen Dukes (p.48) who found that demand of 300,000 to 400,000 passengers was a sound basis for traffic planning for the airport. This outcome will have profound implications for the viability and profitability of Shannon International Airport as a business entity. A 30% reduction in transatlantic traffic could result in a decline of upwards of 10% of the airport's revenue. This would also have serious implications for business and tourism in the greater west of Ireland, a topic that is addressed in detail in Chapter Two.

Strategic analysis of impact of ‘Open Skies’ on business

Shannon International Airport is acknowledged by most commentators as being a crucial factor in encouraging the location of international companies in the Shannon Free Zone and the Mid-West Region. The Alistair Tucker & Associates' report found that 'Shannon Airport is clearly of crucial significance to the development of the economy of western Ireland. Two sectors in particular are heavily dependent on the presence of the airport: tourism, and those businesses – both multinational and Irish owned – that operate in the international marketplace.'

In early December 2005, IBEC Mid-West, in conjunction with IBEC West and the Chambers of Commerce in Ennis and Shannon, circulated a questionnaire to members. A total of 123 responses were received. Responses were received from 30 US-owned companies in addition to three Canadian subsidiaries. This chapter uses the feedback from the survey to assess the potential impact of 'Open Skies' on: the economy of the hinterland of Shannon Airport; companies and their views of potential impact on Foreign Direct Investment (FDI); and potential impact on the tourism sector.

IMPACT ON THE ECONOMY IN THE HINTERLAND OF SHANNON AIRPORT

The Mid-West Region's industrial base has traditionally been supported by significant numbers of foreign-owned manufacturing plants, mainly in the engineering, electronic, and chemical sectors. This helped a strong indigenous engineering, electronic sub-supply and logistics sector to develop. Given the region's agricultural strength, food processing remains a key feature of the commercial landscape. Over recent decades, the services sector, internationally traded services and Information Communications Technology in particular, experienced major growth allied to strong gains in the construction, retail, medical and health sectors.

The combined region of Galway, Clare, Limerick and North Tipperary accounted for 15.43% of industrial output in the State in 2003 (the latest year for which CSO figures are available). There are in excess of 30,000 employers in counties Limerick, Clare, Tipperary and Galway. Figure 9 presents a breakdown of number of employers by county and by employee range.

Figure 9: Number of employers by county and by employee range

Co. Area	RANGE OF EMPLOYEES					Total
	0-9	10-49	50-99	100-499	500+	
Clare	4,279	411	38	49	5	4,782
Galway	9,380	1,006	113	62	18	10,579
Limerick	6,926	859	80	43	16	7924
Tipperary	6,414	637	48	41	2	7142
State	169,108	19,231	2,048	1,461	360	192,208

Source: Revenue Commissioners, September 2005

The Clare County Development Board has developed an Internet-based business directory² of all businesses in Clare. It currently contains in excess of 3,000 businesses from sole traders, professionals and SMEs to multinationals, illustrating the diversity of the commercial base in the county.

Sørensen and Dukes (p27) state that 'development of air transport in Ireland has been closely associated with economic growth. It is clear that air transport is immensely important for industrial location, international competitiveness and economic growth.'

Without doubt, Shannon International Airport is a major driver of economic growth by attracting companies to the region and providing cost-effective international access for companies located in the catchment area. Illustrating the importance placed by business on Shannon, 85 (69%) respondents indicated that they agreed or strongly agreed that 'the current level of access and connectivity from Shannon Airport to the US and Canada is vital for the company's continued competitiveness.' Over half of all respondents agreed that 'an increase in services from the US to Shannon International Airport would impact positively on expansion plans for the company in the West of Ireland'.

¹ Impact Study of Shannon Airport, Alistair Tucker & Associates, 1997.

² See the business directory section on <http://www.clarecdeb.ie>

Macroeconomic view of employment and income

Figure 10 shows the employment totals for Limerick, Clare, North Tipperary and Galway in 2002. Nationally, the labour force is estimated to have increased by 9.8% between 2002 and 2005.

Figure 10: Labour Force and Employment, 2002 in Galway, Clare, Limerick and North Tipperary

	Galway	Clare	Limerick	North Tipperary	Combined Total
Total in labour force	93,797	47,291	78,241	27,033	246,362
Total at work	85,210	43,679	71,314	24,989	225,192

Source: Census 2002

Ireland's unparalleled economic performance since 1987 has seen average income levels rise to approximately 142% of the EU 25 average. The Border Midlands and Western Region is currently the 34th richest region of 224 regions in Europe.

The latest CSO statistical release on regional income presented in figure 11 highlights the strong economic performance of Shannon Airport's hinterland as measured by average disposable income levels.

Figure 11: Indices of disposable income per person by county, 1995 to 2002 in Galway, Clare, Limerick, North Tipperary and State

County Area	1995		2002		% Change in actual
	Actual	% State Avg	Actual	% State Avg	
Galway	8,653	96.6	16,094	96.8	86.0
Clare	8,324	92.9	15,524	93.4	86.5
Limerick	8,957	100	16,657	100.2	86.0
North Tipperary	8,940	99.8	16,414	98.7	83.6
State	8,960	100	16,625	100	85.5

Source: Census 2002³

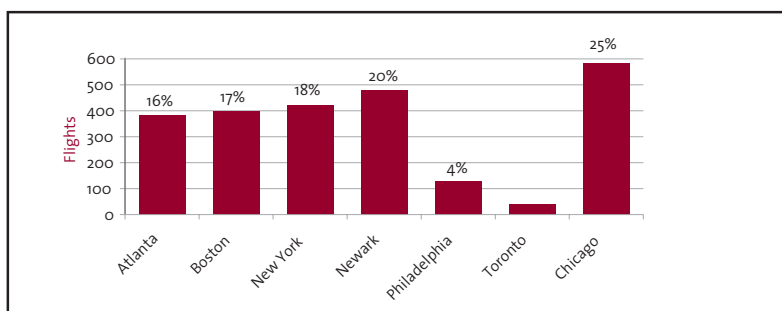
Respondents linked employment with the continuation of a secure, vibrant Shannon International Airport offering direct services to the United States, with 60 (49%) indicating that they agreed or strongly agreed that 'a reduction in flights from the US to Shannon would hamper efforts to retain employment in the company'. Over 81% of respondents either agreed or strongly agreed that 'a reduction in flights from the US to Shannon would impact negatively on overall employment levels in the region'.

These income statistics do not take account of factors such as cost of living and dispersal of income within the region, and are therefore, less than definitive in indicating progress. However, the figures support the fact that Shannon Airport's hinterland has shared and contributed to Ireland's economic success since 1995. Most commentators agree that the airport has been a driving force in this success

IMPACT ON COMPANIES

The impact of 'Open Skies' on businesses must be viewed from different perspectives. The impact on the 75 US multinationals located in the Mid-West who directly employ 11,000 people will be more intense than other multinational companies, Irish companies and/or SMEs. The potential impact on business was not unexpected and falls under a number of categories:

Figure 12: Business Destinations in US



- ability to win new orders (turnover);
- ability to attract additional capital investment if the company is perceived as peripheral within the group by corporate decision makers;
- cost of access to markets (travel by sales people, suppliers, freight etc);
- ability to win R&D investment.

³ County Incomes and Regional GDP, 2005 published in March 2005. Estimates for county areas should be regarded as indicative of relative levels rather than as accurate absolute estimates.

A total of 77 respondent companies (see figure 12 on previous page) indicated that they took 2,216 flights to/from the US from Shannon International Airport. Almost three quarters of these flights were by North American-owned companies.

Some 81 (61%) of respondent companies received business visitors from the US in 2005.

This report presents a number of individual case studies and testimonials from members on the impact of 'Open Skies' on companies.

DATA DISPLAY

Data Display, one of the world's leading suppliers of electronic information displays with headquarters in Ennistymon, Co. Clare, employs 200 people, 66 of whom are based in sales offices in Europe and the US. Ease of travel between Ennistymon and Europe, as well as between Ennistymon and the US, is essential for our sales and technical staff. It is equally important that customers can visit the facility in Ennistymon, without effort or experiencing long travel delays. The company has invested significantly in recent years in our manufacturing facilities and it is important that customers can see our capabilities first-hand and meet with relevant personnel.

Kevin Neville, Managing Director.

CO-ORDINATION MADE EASY

Co-ordination made Easy, based in Clare, provides a complete wedding planning service in Ireland. The core of my business is Irish-Americans coming here to get married from the United States. The simple reality is that my customers must have access to flights from New York, Washington and Boston. Without these flights, the region will lose out on a lot of business. I have assisted over 70 couples in getting married in Ireland since 2002.

Kate Deegan, Director.

Other companies, particularly service-based companies in areas such as insurance, telecommunications, motor sales, retail and accountancy

identified a domino effect, whereby their business would be affected if the cost competitiveness of their clients, both multinationals and indigenous companies focused on the international market, was adversely affected over the medium term by the introduction of 'Open Skies'. The opposite is also true. If new business were attracted to the region, this would have a positive impact on the broader business sector based in the hinterland of Shannon International Airport.

The potential impact of 'Open Skies' on the attractiveness of the region to FDI remains a key question. The feedback from the survey is that air access has been critical to the decision to locate investment in Shannon and any diminution would have a negative impact. Major employers in the region have stated that reduced access will influence their ability to attract new investment from within their groups.

COOK IRELAND

Cook Ireland is part of the Cook Group, a world leader in minimally invasive medical technology. In addition to product development, manufacturing and distribution, the Limerick plant is also home to Cook's European Shared Service Centre and employs 300 people.

The connectivity of Shannon to the UK (London Heathrow in particular) and to the US was a very important factor in the decision to locate our plant in Limerick in 1996. Curtailment of these services from Shannon would probably not have any immediate effect (apart from a lot of unhappy staff) but would definitely affect our ability to expand our corporate mandate in the future.

Business travel is extremely important to the effective functioning and integration of all departments including finance, production, customer service, logistics, HR, IT, engineering, quality, purchasing and marketing across the Cook group. An indication of the importance of access to Cook is that we had 92 corporate personnel visit us across all departments in Limerick last year with each visit lasting, on average, 3 days.

Bill Doherty, Executive Vice-President

AVOCENT INTERNATIONAL

Avocent Corporation is the leading supplier of connectivity solutions for enterprise data centres, service providers and financial institutions worldwide, employing 150 people in knowledge-based activities at its international headquarters in Shannon. A key reason the company set up in the Free Zone was the excellent access provided from the airport. Our business model spans all functions of supply chain, distribution, customer care, R&D, corporate quality, technical support, marketing and international HR and finance and, more recently, one of five divisions of the company. Each of these functions has a significant international dimension to their responsibilities requiring direct access to customers, suppliers, channel partners and corporate colleagues. We have invested in a customer-solutions centre in our facility in Shannon where customers visit to test out different configurations of our technology and liaise directly with R&D and the support groups. Direct and timely access is crucial to the success of this business model. Customers, R&D personnel and, more importantly, corporate decision makers, have to be able to visit as and when they wish, so that our facility is seen as 'the place to do business', one that is indispensable over the longer term. Avocent International in Shannon represents over 40% of the corporate revenue of Avocent Corporation. Between customers, employees, business partners and corporate colleagues, Avocent International has in excess of 1,000 passengers through the airport annually. Our chairman and CEO who visits Shannon every 3 months, has stated that if there is a dilution in the direct access from the US to Shannon, that it will have adverse implications for future investment decisions for the Shannon facility.

*Kieran MacSweeney,
Senior Vice President and Managing
Director*

MEDTRONIC GALWAY

The global Medtronic Group has an annual turnover of €10 billion, with €400 million contributed by our Galway plant, which directly employs 550 people. Development of Shannon into a world-class international airport with services to/from US and UK/Europe plus investment in road and rail infrastructure are critical to the current and future health of the west of Ireland as a business location. Our personnel take approximately 550 trips for business purposes on an annual basis with about 330 of these to the US. Our top three most frequent final destinations are San Francisco, Minneapolis and Boston. The majority of US trips use Shannon Airport. A motorway between Shannon and the west is an absolute must.

Sean Silke, Director of HR

POTENTIAL IMPACT ON TOURISM

Total tourism revenue in 2005 was approximately €5.3 billion, of which €4.3 billion was in foreign exchange earnings and a further €1 billion in domestic tourism revenue. The tourism sector supports 150,000 jobs in the economy. Ireland received 6.7 million visitors for the year 2005. In the three western regions participating in the 'Ireland's Western Regions Initiative' – the North West, West and Shannon Regions – the tourism industry supports 39,000 jobs and generates €1.3 billion in revenue.

Shannon International Airport's importance for the tourism sector cannot be overstated. The tourism sector is a major beneficiary of direct US services to Shannon Airport. 'Open Skies' is expected to result in a net increase in US visitors to Ireland as more and newer services are developed. For example, it is understood that United Airlines are poised to commence transatlantic services from 2008 but only from Dublin. A concern therefore for the sector in the greater west of Ireland region is that if US services are concentrated in Dublin, then the net impact of 'Open Skies' on the region could be a reduction in US visitors if they can not be attracted away from Dublin. Also in this scenario, accommodation providers in the vicinity of Shannon Airport, will see a fall in business as visitors will probably spend at least the first and last night of each visit in Dublin.

Sørensen and Dukes (p.40) quote Fáilte Ireland statistics, which show that North America accounts for about 15% of overseas visitors and for nearly 20% of the Irish revenue from overseas visitors. Indeed, regional tourism operators would suggest that the value of a US tourist in a regional location can be up to five times the value of a UK visitor, given the difference in the length of stay.

As with other areas of the economy, the business community perceives there to be a clear link between the future development of tourism in the region and the continuation of services offered at Shannon. When questioned, 106 (86%) respondents indicated that they agreed or strongly agreed that 'an increase in services from the US to Shannon International Airport will have a positive impact on the tourism sector in the west of Ireland.'

The tourism sector has suffered global shocks such as foot and mouth, September 11 and the Iraq War since 2000. An analysis of the impact on Ireland's tourism sector of the fall in US tourists resulting from these shocks will provide a basis for predicting the impact of the end of Shannon Airport's Dual Gateway status. Fortunately, the impact of such shocks is, by its nature, short to medium term, with recovery in passenger and revenue numbers within a few years. There is no guarantee that the tourism sector will recover following 'Open Skies' if services are seriously depleted.

A number of individual case studies and testimonies from members involved in the tourism sector on the impact of 'Open Skies' are presented here.

SHANNON HERITAGE

Shannon Heritage is a wholly-owned commercial subsidiary of Shannon Development, employing over 300 people in the main tourist season. It is one of the largest operators of heritage products in Ireland with a portfolio that includes eight-day visitor experiences and four evening entertainments, including the world famous Bunratty Medieval Banquets. Bunratty Castle and Folk Park is one of Ireland's top visitor attractions with an average of 350,000 visitors per annum. Visitors from the US are extremely important to our business and are vital to our future. At present, over 60% of our evening entertainment business is sourced from the US, and much of that comes via Shannon Airport. Any reduction in the number of US flights to and from Shannon would lead to a significant drop in business and a huge knock-on effect to all tourism-related businesses in this area.

John Ruddle, Chief Operations Officer

DOONBEG GOLF CLUB

The Doonbeg Golf Club development is a €150 million project, employing one hundred and fifty people in County Clare, primarily focused on North American tourist business. Our proximity to Shannon International Airport and the excellent level of transatlantic services is critical to our continued success. Local businesses in the hinterland of Doonbeg have benefited hugely from the club.

Joe Russell, General Manager

BUNRATTY SHANNON SHAMROCK

The US market accounted for approximately 30% of our turnover in 2005. The majority of our business in high season originates from US tour operators bringing US tourists directly into Shannon Airport. If tour operators have to re-think their travel itineraries due to the abolition of the bilateral agreement, it will have a hugely negative impact on our business. This will affect further investment in the property and any further recruitment plans. The group, Dunne Hotels spent €220,000 on marketing and advertising in 2005.

*Kate O'Connor,
Sales and Marketing Manager*

DROMOLAND CASTLE

The US market is critical to our business. Our customers from the United States spent a total of 14,053 days in Ireland in 2005. The US market accounts for 50% of overall business. It is hugely important in the peak summer months. Cost-effective, time efficient and flexible travel from the United States to Shannon is critical in attracting visitors to the castle. Daily, year round services to the United States from Shannon International Airport is the number one air transport priority for our business. I wholeheartedly agree that an increase in services from the US to Shannon will have a positive impact on the tourism sector in the west of Ireland. Unfortunately, a substantial reduction in flights would seriously hamper future investment plans in the Dromoland campus, which is evolving as a world-class golf resort, employing 200 people in County Clare.

Mark Nolan, Managing Director

CASTLETROY PARK HOTEL

The Castletroy Park Hotel is one of the leading hotels in the Greater Limerick Area. Our core markets tend to be of a corporate and conference-related nature. A significant amount of our business is derived from the large number of US-owned businesses in the Mid-West Region. This source represents 19% of our turnover (2005).

The key issue for the vast majority of our international-conference clients remains proximity to an international airport and the frequency of services at the airport. This critical part of our business operates on an all-year-round basis. The many US owned companies operating in the region along with the world-class educational and elite sporting facilities, which this area now has, is a tremendous source of business to the hotel and indeed the entire region. This, combined with the many planned enhancements and developments in the greater Limerick area, represents an unprecedented opportunity for this region.

Just as the region has benefited greatly from the recent increase in low-cost traffic through the airport, we at The Castletroy Park Hotel in particular, would be greatly exposed to any reduction in transatlantic traffic through Shannon.

Brian Harrington, Managing Director

CLARION HOTEL

The Clarion Hotel is a signature hotel in Limerick City, employing over 80 people. The business

generated by low-cost carriers from Shannon has presented an opportunity for hotels in Limerick. New properties are coming on stream to meet this demand, which is excellent for Limerick. However, the US market remains of fundamental importance as it accounts for 30% of our business mix. The hotel also benefits from corporate business people visiting companies based in Limerick and the Free Zone. Limerick and the greater west of Ireland region offers a wonderful tourist experience, which must be marketed across the States, generating demand so that airlines are looking at adding services from Shannon when 'Open Skies' becomes a reality.

Sean Lally, Managing Partner

The tourism sector invests significant resources in marketing Ireland. Two key factors that will turn interest into definite travel plans are cost-effective access and a quality visitor product. Without easy access to the greater west of Ireland, the tourist sector will suffer. A decline in visitor numbers will affect future product development initiatives which will have further long-term implications for the development of the sector. Indeed, the increase in passengers on low-cost carriers to airports on the west coast demonstrates that cost-effective access is a positive and immediate catalyst for significant growth in tourism.

Quantifying the potential impact on tourism by extrapolation

The outbreak of foot and mouth in 2001 together with the events of September 11, 2001 in that year in the US highlighted the fragility of Ireland's tourism industry. The number of tourists coming to Ireland dropped by 7 per cent from 6.27 million in 2000 to 5.8 million in 2001, while expenditure by overseas visitors dropped by over 1 per cent. In 2000, over one million US tourists visited Ireland. The decline in revenue and visitor numbers followed a significant and co-ordinated effort to promote Ireland, which helped bolster visitor figures, and expenditure numbers without which the industry could have collapsed.

Wright and Linehan⁴ (chapter 9) examines some of the effects on tourism resulting from the aftermath of the atrocities that occurred in the US on September 11, 2001. The terrorist attacks on the Twin Towers dramatically affected the global tourism market, including Irish tourism, as American confidence in international travel safety was eroded. Travel on US carriers during the month of September 2001 was down by 30 per cent and the knock-on impact on tourism was immediate. The aviation industry suffered considerable losses, as many people cancelled their plans to travel. The airline industry reduced the number of transatlantic seats available to travellers, further restricting the numbers that could travel. As the tourism industry began to show signs of slow recovery, growth was further curtailed as a result of the war in Iraq.

In the aftermath of the events of September 11, 2001 and the resultant crisis in the aviation industry, Shannon International Airport experienced an immediate reduction in air services. Aer Lingus, Delta and British Airways were among the airlines that reduced capacity at Shannon. Aer Lingus discontinued their Newark and Baltimore services in late 2001, recommencing the Baltimore service in 2003. By early 2002, a total of 12,000 seats per week had been taken out of the previous year's schedule.

Figure 13: Tourism to Shannon revenue 2000-2002

Shannon Region tourism revenue (€ million)			
	2000	2001	2002
Overseas	312.3	300.9	306.6
of which American	99.4	88.9	106.2
Ireland	92.2	108.2	103.6
Total	399.5	409.1	408.2

Source: Fáilte Ireland

The net impact of the events of September 2001 can be used to extrapolate the possible impact of 'Open Skies' on the tourism sector in the Mid-West Region. Looking in more detail at the figures presented in Figure 5 in Chapter 1 (on page 10):

- Over 680,000 US passengers travelled on transatlantic routes (both scheduled and charter) from Shannon in 2000, the last full year before the downturn in the aviation and tourism sector. This had fallen by nearly 10% to 618,000 in 2002.
- The Boston service increased by 14% in the period 2000-2002 but the JFK service suffered a decrease of 16.7%, and Chicago a decrease of 12.7%.

Figures from Fáilte Ireland show that:

- Total tourism revenue in the period 2000 to 2002 in the Shannon region increased from €399.5 million to €408.2 million (see figure 13). The increase in revenue was the result of a significant campaign by the tourism industry to increase the value of domestic tourism. Total overseas revenue declined by €11.4 million in 2001 compared to 2000 with €10.5 million accounted for by the decrease in revenue from North America, which fell by 10.5%.
- The North American market performed strongly in the second half of 2002. This followed increased tourism-promotion expenditure by relevant agencies and the industry, such that the overall period 2000-2002 exhibited growth in revenue of 7% in the Shannon region.

⁴ Wright, Angela and Linehan, Margaret Ireland - Tourism and Marketing (Blackhall Publishing, 2004)

If, as a result of 'Open Skies', flights are transferred from Shannon to Dublin it is likely that the total number of visitors to Ireland will remain unchanged. In this scenario, a proportion of the increased traffic will visit the west of Ireland but it is forecast that overall bed numbers and revenue per head will decline in the region. If transatlantic access is concentrated in Dublin, the impact will be greater business for the east coast's tourism sector at the expense of the sector in the west of Ireland. This is totally at variance with the objective of fostering balanced regional development.

Fáilte Ireland figures highlight that the North American market accounted for approximately €260 million in tourism revenue in the western regions (the Northwest, West and Shannon) in 2004. The North American market accounts for 29% of total overseas revenue (€900m) and 19% of total tourism revenue in the western regions. It is interesting to note that the Northwest accounts for only 12% of this North American total, probably due to its distance from both Shannon and Dublin Airports, while it accounts for 23% of the overall market of the three regions. A reduction of US tourists visiting the greater west of Ireland region following the introduction of 'Ireland-US Open Skies' would have serious implications for the industry. It is difficult to estimate precisely the impact on revenue of a reduction of 100,000 US tourists, or 200,000 passengers, which is approximately 28% of Shannon's current transatlantic traffic, visiting the greater west of Ireland region. However, a 30% reduction in overseas revenue from the North American market amounts to €75 million in lost revenue on an annual basis. This is equivalent to 5.8% of total tourist revenue in the western regions.

CONCLUSION

Shannon International Airport is a critical factor in the success of companies locating in the greater west of Ireland region, in influencing growth of average disposable income and maintaining strong employment levels.

Chapter One presented three possible scenarios for transatlantic service provision from Shannon International Airport, based on different levels and frequency of services from the carriers. This report does not speculate on the likely effect on services of 'Open Skies'. However, six respondents strongly agreed with the statement that 'a substantial reduction in flights from the US to Shannon could trigger decisions to relocate the company from Ireland' while a further 19 agreed with the statement. As such, one in every five companies would consider relocating if services were severely reduced. This is not beyond the realm of possibilities. In a global economy, companies have to compete for new investment to survive and prosper. International access is a critical element in the overall competitiveness and value equation.

The events of 2001 and their effect on the performance of the tourism industry demonstrate the impact of reduced transatlantic services and the potential impact of 'Open Skies' if transatlantic services cannot be retained. The analysis presented in this chapter indicates that the policy could lead to a 30% reduction in overseas revenue from North America, costing the tourist sector upwards of €75 million in lost revenue on an annual basis.

The key message from Chapter Two is that business and tourism are reliant on services from Shannon International Airport to the UK, Europe and transatlantic destinations in the US and Canada. There is a direct causal relationship between access to aviation services and the long-term viability and growth prospects of the business community in the hinterland of Shannon International Airport. Given that 'Open Skies' presents an uncertain future for transatlantic services, the business, tourism, industrial and commercial sector is calling for a package of measures to counteract any potential negative impact, to be implemented in a planned, co-ordinated fashion on a timely basis. This issue is addressed in Chapter Three within the context of the economic and tourism development plan announced by the Minister for Transport in November 2005.

Business priorities for the economic and tourism development plan

This report constitutes a business and employer contribution to the Economic and Tourism Development Plan announced by the Minister for Transport in November 2005. The key message of Chapters One and Two is that 'Open Skies' presents opportunities and threats for Shannon International Airport, with implications for the business community and the tourism sector of the greater west of Ireland region. Shannon has played an important role in the development of the region. It must continue to be the catalyst for development of the greater west of Ireland region. 'Ireland-US Open Skies' provides an opportunity for the Government and everyone in the region to plan for and invest in our future.

The core issue is that airlines must be encouraged to retain current transatlantic services from Shannon. Indeed, the development of new transatlantic services would be a major boost for the region. Action is required from the Government to counterbalance or pre-empt any negative impact of 'Open Skies' so that all opportunities can be fully embraced.

Figure 14: Shannon International Airport, An Engine for Balanced Growth



Figure 14 identifies the key interlinking components required to strengthen Shannon International Airport as an engine for balanced regional growth and development.

Central to the Government's response to 'Ireland-US Open Skies' must be advance provision of infrastructure in the region so that Shannon's hinterland can be expanded, thereby increasing the potential market for services from Shannon within Ireland. Allied to this, the Government must commit significant additional resources to a major tourism strategy for the greater west of Ireland region. This must include a substantial injection of funds into tourism promotion. The vehicle to implement the Government's Economic and Tourism Development Plan is the next NDP, which will run from 2007-2013. This chapter will now address a series of actions under four headings highlighted in figure 14: Shannon International Airport, physical infrastructure, enterprise development and tourism.

SHANNON INTERNATIONAL AIRPORT

The key business priorities in terms of connectivity and services from Shannon and Galway airports were confirmed in the survey.

- i. Shannon International Airport is the airport of choice for transatlantic travel for companies in Galway, Clare, Limerick and North Tipperary. Services to the UK and Europe is the principal requirement for the majority of businesses in the Mid-West Region, closely followed by services to the US.
- ii. A key gap in service provision remains the lack of an early morning and late-night service between Shannon International Airport and Dublin.
- iii. Galway Regional Airport is critical for businesses in Galway given the strength of services to Dublin, the UK and also mainland Europe.

Developments over the last three years make the management and operation of Shannon International Airport a key concern for business. The first stage of the Airports Act, 2004, has been implemented. The Minister for Transport and the Minister for Finance now need to implement the second stage to achieve a fully independent, resourced Shannon Airport Authority. Specifically:

- It is critical that Shannon International Airport be made fully independent, with the board and management given the autonomy to run an efficient airport. This requires the endorsement of the airport's business strategy by the Government.
- The airport must be fully resourced and commence operations free from debt. Further, the Government must ensure that the airport can deliver a multi-million, ten-year capital investment plan for Shannon International Airport. In this regard, ownership of Aer Rianta International (ARI) must be given to the board of the independent Shannon International Airport.
- Route development and service retention on the transatlantic market will be a key challenge for Shannon. The Government must

ensure that the airport is in a position to offer incentives for route development that match those available at other airports. Sørensen and Dukes (p.51) raise the issue of special support for transatlantic services from Shannon. 'The Essential Air Services Program (EASP) reinforces Dublin's dominance in terms of airport services, particularly at the expense of Shannon and, to a lesser extent, Cork Airport. In this context it should be considered whether a Public Service Obligation could be introduced on routes between Shannon and/or Cork and certain US destinations'.

PHYSICAL INFRASTRUCTURE

The delivery of leading-edge infrastructure is critical to development in the west of Ireland. The key priority for business is completion of the N18 motorway from Limerick to Galway. This chapter focuses on recommendations relating to three key areas of physical-infrastructure development from a regional perspective on the basis that world-class infrastructure is critical to the future success of the region and Shannon International Airport.

Roads

The long awaited Fourth River Shannon Crossing is to begin in the second half of 2006. The Crossing, an integral part of the Limerick Southern Ring Road Phase 2, is expected to take up to four years to complete. The Ennis bypass is on schedule with completion expected in mid 2007. However, a start date for the remaining section of the N18 linking Ennis to Galway has not yet been given.

- Delivery of the entire Limerick to Galway dual carriageway must be accelerated. This includes the timely completion of the Fourth River Crossing and the Ennis bypass. The target travel time between Limerick and Galway must be a consistent 80 minutes. All aspects, from planning, CPO and construction, of the remaining section from Ennis to Galway must be accelerated to ensure completion by 2012.

- Investment in key regional routes, including the N21 Adare bypass to provide access to the N69 and Shannon Foynes Port.

To ensure value for money, all road-project tenders should be fixed-price while projects of a larger scale must also be developed. The remainder of the motorway project from Limerick to Galway should be completed on this basis.

Public Transport

The Mid-West Region needs an integrated plan for public transport. This will require substantial investment, with initial priority to be given to bus transport in the major urban centres. The Government has provided funding to Iarnród Éireann to undertake a full feasibility analysis of the Shannon Rail Link. The Western Rail Corridor was endorsed by the Department of Transport's 'Transport 21' strategy.

- The Mid-West Region needs an integrated plan for public transport. This will require substantial investment, with initial priority to be given to bus transport in the major urban centres. The Government has provided funding to Iarnród Éireann to undertake a full feasibility analysis of the Shannon Rail Link. The Western Rail Corridor was endorsed by the Department of Transport's 'Transport 21' strategy.
- A rail link serving Shannon Airport and Limerick must be specifically included and budgeted for in the successor to the current NDP. The LASER (Limerick and Shannon Express Rail) proposal, which seeks to upgrade and add to the existing rail infrastructure around Limerick City, must also be pursued in order to maximise use of this infrastructure.
- The Western Corridor linking Cork to Sligo by rail must be completed within the timeframe of the next NDP. This includes acceleration of the Galway-Limerick link so that the route is operational by 2010.

Telecommunications Infrastructure

All companies must have access to cost-effective high-speed telecommunications. Ireland has seen significant development in the telecommunications field in the last five years, stimulated by greater competition arising from liberalisation. However, Ireland's digital divide has still to be bridged. A recent Forfás study¹ found that although broadband take-up is increasing, Ireland continues to fall further behind leading countries.

- Competitive broadband must be widely available throughout the region by 2010. Metropolitan Area Networks (MANs) should be deployed in all towns in the region with a population in excess of 1,500 by 2012 with MANs to be delivered to Shannon and Ennis by 2008. The Group Broadband Scheme (GBS) should be extended to all parts of the region by 2009. Cost effective backhaul needs to be available for the MANs and GBS by 2010.
- The telecommunications sector, particularly mobile operators, must be supported in obtaining planning permission for critical telecommunications infrastructure in key areas of the region.

Other critical elements of physical economic infrastructure for the region include: Shannon Foynes Port, energy, water services and waste management.

ENTERPRISE DEVELOPMENT

A framework for enterprise development in Ireland is provided by the Enterprise Strategy Group (ESG) report, Ahead of the curve published in 2004. The business sector strongly advocated implementation of many of the recommendations contained in the ESG report. This chapter focuses on key recommendations relating to enterprise development from a regional perspective on the basis that a strong enterprise sector is critical to the future success of Shannon International Airport.

- The retention and attraction of FDI is seen as a critical ingredient in the continuing success of the greater west of Ireland region. However, the Mid-West Region's performance in attracting FDI over the last decade has been very poor. An analysis² of the Mid-West Region's FDI performance in the period 2000-2004 highlights a 16.5% reduction in net employment in multinational companies in the region. At the end of 2004, employment in FDI companies was 18,844, down from 22,569 in 2000.

IDA Ireland must focus on the positives for the region to make a renewed effort to attract high quality projects to the west of Ireland. Minister Michael Martin should immediately clarify and implement his decision to reallocate FDI promotional responsibilities for the Shannon Free Zone to the IDA and Shannon Development. The Westpark Development in Shannon, along with other high-quality locations in Ennis, Thurles, Nenagh and Limerick offer major opportunities for the region and the IDA must now deliver for the Mid-West. It is critical that IDA Ireland results focus on the entire region. The business community is ready, willing and able to work with IDA Ireland to assist in any way possible to attract FDI particularly by showcasing the success of existing multinationals in the region. There is a need to accelerate the current capital investment programme in relation to the renewal of the Shannon Free Zone, Raheen Business Park and the National Technology Park. In this context, strategic plans for the future development of these industrial estates must be developed to further enhance the quality and choice of business property available to potential investors.

- The roles and responsibilities of the economic development agencies in the Shannon region, IDA Ireland, Enterprise Ireland, and Shannon Development, must be clarified so that the region can leverage maximum advantage from their expertise and record of accomplishment. A key role must encompass the continued fostering of links with Industry and Education to develop the region's capabilities in areas such as R&D, marketing and entrepreneurship. Appropriate support for the indigenous sector and SMEs in particular is a key dimension of enterprise development. The business sector congratulates the Enterprise Boards in the Mid-West who are collaborating to bring the PLATO network to the region. Further initiatives in the enterprise space and in training are critical to the development of SMEs.
- The region must adopt a strategy to develop clusters of companies in designated sectors. In this regard, the business community strongly supports the location of a postgraduate medical college in the University of Limerick (UL). The establishment of a medical school in UL will act as a catalyst for development in the Mid-West by positioning the region to attract new investment, both indigenous and foreign, particularly in the medical devices arena. Other clusters that could be targeted include specific sub-sectors within the knowledge, health and energy sectors.

¹ Benchmarking Ireland's Broadband Performance, November 2005.

² Analysis undertaken and compiled by the American Chamber of Commerce Ireland in February 2006.

TOURISM

Tourism is a critical industry within the enterprise and business sector. The importance of tourism to economic development, and to better-balanced regional development in particular, was highlighted in a recent report by Professor Jim Deegan of UL and Dr. Richard Moloney of NUI Cork for Ireland West Tourism entitled 'Understanding the Economic Contribution of Tourism to Economic Development'. The report makes the point that services are the dominant driver of Irish economic activity and tourism is a key component of the services sector in this country. This is in line with international experience and most forecasts predict that tourism will continue to expand in importance in the years ahead.

Chapter Two outlined the potential impact of reduced transatlantic services from Shannon on the tourism sector in the greater west of Ireland region.

- There must be a co-ordinated and significant response from the industry in conjunction with

national and regional tourism bodies. In this regard, Mr Pat Shanahan, Chairman of Shannon Airport Authority is currently leading a project in conjunction with Tourism Ireland, Shannon Development and other regional tourism bodies along the western seaboard to develop a western regions tourism marketing plan.

- The tourism industry invests significant resources in promotion and marketing of individual properties, brands and attractions. There is a need to co-ordinate this fragmented effort along the lines of initiatives such as Meet Limerick Shannon, which focuses on attracting international conference business to the region.
- Building competitiveness in the tourism sector will be a major challenge in the years ahead as more destinations attempt to gain a share of the international tourism market. The western regions need to coordinate their efforts in product development as well as in marketing to ensure a competitive tourism industry for the future. The emphasis should be on developing new tourism

products of scale, or clusters of tourism attractions, that will act as magnets for international and domestic visitors to the west. This will require major inputs from the private sector. The scale of the required investment means that real impact will only be delivered on the basis of partnership between the public and private sectors. A regional tourism innovation programme should also be a key element of the new approach to tourism product development. There will be a continuing need to implement more innovative approaches to developing and marketing the tourism sector in the years ahead and a structured approach to promoting innovation will be essential.

- There is a requirement for a landmark tourism attraction for the region, which would become a focal point for the industry and visitors. The business community would support plans for an international conference centre in the region, located within the wider hinterland of Shannon International Airport.

IMPLEMENTATION OF TOURISM AND ECONOMIC DEVELOPMENT PLAN

This report has identified a series of actions required in key areas to counterbalance and pre-empt any negative impact of 'Ireland-US Open Skies', which require national commitment from a number of government departments to include: tourism, transport, communications, local government and enterprise. Implementation of these measures requires an integrated strategy at regional level. The vehicle to implement the Government's Economic and Tourism Development Plan is the next NDP, which will run from 2007-2013. The Government is currently preparing the next NDP, a process which includes extensive consultation with interested parties.

A key priority of the NDP 2007-2013 is development and strengthening of the Atlantic Economic Corridor, which is emerging between Limerick and Galway. A number of factors point to the emergence of the Atlantic Economic Corridor:

- Common infrastructure needs in terms of road, rail and most importantly, Shannon International Airport of businesses in Limerick, Clare, Tipperary and Galway.
- Emerging clusters of companies in ICT and medical devices.
- Collaboration between the tourism sector and agencies in promoting the greater west of Ireland region.
- Collaboration within the third-level education sector in the form of the Atlantic Universities Alliance.

The first step in providing a platform for developing this economic corridor is completion of the Limerick to Galway dual carriageway. This entire route must be completed by the end of 2012, facilitating consistent travel times from Galway City to Shannon International Airport of less than 65 minutes.

The Government will need to seriously assess how current structures of national, regional and local

government can be used to deliver this corridor. The business community suggests that the next NDP should be implemented by national authorities with strong regional input. A national gateways authority should be established and overseen by either the Department of the Taoiseach or the Department of Finance to oversee development of the designated gateways identified in the National Spatial Strategy and the delivery of the Atlantic Economic Corridor. This authority must have the legal powers and budget to develop and implement integrated development plans for each gateway. The regional authorities will provide the vehicle for regional planning, consultation, decision-making and also implementation, in close co-operation with the national authority. The regional assemblies should be disbanded. Another key issue is that the Planning and Development Strategic Infrastructure Bill must be enacted and operational from January 2007, in line with the next NDP.

CONCLUSION

This report presents a model for the delivery of balanced regional development in the greater west of Ireland with Shannon International Airport as the engine for economic growth. A series of actions are identified under four headings: Shannon International Airport, physical infrastructure, enterprise development and tourism.

The key message of this report, encapsulating the views of companies in Limerick, Clare, North Tipperary and Galway, is that 'Ireland-US Open Skies' can be an opportunity if:

- a) Shannon International Airport becomes a fully resourced, debt-free and independent entity.
- b) Shannon International Airport is properly financed and cost competitive so as to provide a full range of supports for airlines towards the development of new scheduled transatlantic services on a year-round basis – thereby substantially growing passenger throughput.
- c) Infrastructure delivery is accelerated so that Shannon International Airport's catchment area is expanded significantly, creating a vibrant market demand for transatlantic services and ensuring Shannon can compete with Dublin, the country's dominant airport.
- d) A major multi-million euro annual tourism campaign in North America is undertaken for a minimum 7-year period, which promotes Shannon as the gateway to the greater west of Ireland region, commencing in Autumn 2006.

The 'Open Skies' announcement has stimulated the business sector to focus on and analyse the future of the region. The consensus is that the Mid-West and greater west of Ireland region has potential to develop further in terms of business, industry, and tourism. A clear list of priorities for the Government has been presented in this report. Investment is now required and the vehicle for delivery is the next NDP. Pro-active delivery of key decisions by the Government will have a positive effect on employment and the quality of life of everyone in the greater west region.



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