

# Shannon Airport: An Engine of Economic Growth?

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*The history and significance for Irish Economic development of Shannon Airport is investigated by Stephen Butterly. The importance of Shannon airport for balanced regional development is highlighted and the author concludes that Shannon represents a valuable piece of infrastructure that is under-utilised today.*

## Introduction

It can be said that throughout its history, Shannon Airport has suffered from a perpetual crisis of identity, from its earliest days in the formative years of the modern state of Ireland, through the economic peaks and troughs of the 60's, 70's and 80's, and on through the recent era of rapid economic growth. From one perspective, Shannon Airport was a symbol to be proud of, acting as an institution that bridged the considerable gap that is the Atlantic between east and west, a reminder both of our independence as a nation, and our ever deepening integration with the wider world. Conversely, Shannon Airport also proved to be a strikingly visible manifestation of our economy's inability to fully provide for the youth of this country, as it was a gateway through which tens of thousands were forced to emigrate in search of a better life elsewhere.

What does Shannon represent today? Is it an institution that should be nurtured and encouraged, a platform upon which further economic growth can take root? Or is it a relic of the past, a lumbering piece of infrastructure that serves no purpose in a modern, dynamic economy? In order to address these questions fully, I propose to structure this essay around three themes:

- Tourism - Challenges and Opportunities.
- Shannon Airport & Regional Economics.
- The Government, Shannon & Dublin.

## Tourism - Challenges and Opportunities

Ireland, and the western seaboard in particular, has been blessed with a natural and relatively unspoiled beauty that lends itself readily to tourism. This fact has not been lost on the citizens of this country, and as such, tourism has grown to dominate the

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economy in the West.

However, although it is almost tautological to mention the repercussions of the events of September 11<sup>th</sup> on tourism, it is an unfortunate and unavoidable fact that tourism is one sector of the economy that will struggle for the foreseeable future. Estimates vary, but figures such as a 750,000 decline in the numbers of visitors from the USA, and an overall decline of 25% in the numbers of tourists visiting the West this year, are sufficient in themselves to quantify the difficulties ahead.<sup>1</sup> Shannon Airport, which relies on leisure travel for more than 60% of its business, will feel a direct impact. Already, cutbacks by carriers such as Aer Lingus, British Airways and Delta have resulted in some 10,000 fewer visitors through Shannon Airport per week, and when one considers the report of the Shannon Development Committee (SDC) which suggests that €1.25million flows into the economy weekly from every 3,000 visitors, the scale of the impact becomes even more significant.<sup>2</sup>

The question we must ask ourselves is whether or not Shannon Airport is in a position to turn this situation around, to save itself and sectors of the western economy from potential ruin. In short, I believe there is considerable untapped potential at Shannon Airport that, if properly managed, could provide a considerable economic stimulus to Ireland at both regional and national levels.

Shannon Airport is ideally located in a central position between many of Ireland's regional tourist centres, such as Killarney, Ennis and Galway. However, for many years, it has lost out to the "Dublin based consensus" that exists in this country, in terms of it being under-utilised as a mechanism for attracting new tourists.<sup>3</sup> The Fitzpatrick Consultants report on the Spatial Spread of Tourism reinforces this view, by stating that the 1994-1999 Operational Programme for Tourism, designed to increase spatial spread, has failed. For example, whilst tourism on the whole grew some 126% in Ireland between 1988 and 1998, the figure for Dublin was closer to 200%.<sup>4</sup>

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<sup>1</sup> Irish Independent, 30<sup>th</sup> November 2001.

<sup>2</sup> Irish Independent, 29<sup>th</sup> November 2001

<sup>3</sup> Clare Champion Report

<sup>4</sup> Fitzpatrick Associates Economic Consultants, 2001

This situation is hardly surprising given that, even pre-September 11<sup>th</sup>, direct air traffic to the west has been declining in relative terms, with nearly 85% of the growth at Aer Rianta airports over the past decade occurring at Dublin Airport. Table 1 below provides some recent statistics on growth at Dublin and Shannon Airports.

**Table 1.** Adapted from Aer Rianta Annual Report (2000)

Year	Passenger Numbers		% of Aer Rianta Growth	
	<i>Dublin</i>	<i>Shannon</i>	<i>Dublin</i>	<i>Shannon</i>
2000	13,843,528	2,408,252	72.33	15.3
1999	12,802,031	2,188,154	68.45	20.52
1998	11,641,100	1,840,008	90.52	1.24
1997	10,333,202	1,822,064	89%	5.83%

Those with a strictly conventional economic bias may argue that the higher growth rates at Dublin Airport have been merely a case of supply reacting to demand, and of course there is an element of truth in this argument. However, there is another side to the argument, and as such I find myself strongly lead towards the position put forward by the Shannon Development Committee who claim that '*...in the case of airlines...because of their own strategic priorities and powerful marketing capabilities...they can set out to lead demand, clearly with considerable success.*'<sup>5</sup>

This logic, i.e. that the people follow the planes rather than vice-versa, is the crux of the argument regarding Shannon Airport; what it needs to provide is efficient, frequent, value for money access to the west to allow this region to exploit its natural tourism advantages. As the Fitzpatrick report continues, '*a destination's resource base and its accessibility are the two most crucial factors in determining success.*'<sup>6</sup>

In my mind, access at Shannon Airport should continue to consist of both short and long haul services. Debate has taken place for many years regarding the transatlantic

<sup>5</sup> Thompstone, 2001

<sup>6</sup> Fitzpatrick Associates Economic Consultants, 2001

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stopover at Shannon Airport, with successive Governments supporting the maintenance of the enforced stopover. However, this is a clear example of the kind of strategic policy that needs to be left behind as basing the economic future of Shannon Airport on a relic from the protectionist era that serves no economic purpose, other than protecting a few hundred jobs at the airport, is ludicrous. Shannon Airport needs to become dynamic in attracting viable long-haul carriers, particularly on transatlantic routes, based on economic reality rather than political interference; indeed, the Fitzpatrick Consultants believe that Shannon should clearly be designated for direct international services and for tourism charter services<sup>7</sup>. As regards short-haul services, with particular reference to low-cost flights, it is in this area that I believe the majority of potential for Shannon to lie. Ryanair's Michael O'Leary is keen to stimulate tourism in the entire western seaboard by introducing new flights at Shannon, and IBEC are adamant that '*cost-competitive access and connectivity are the key to the long term future growth of the region*<sup>8</sup>.' The expansion of competitively priced routes from major European locations directly into Shannon Airport would open up the west to an entirely new form of tourism. That of the lucrative three and four day "flight-break" market that is currently dominated by Dublin, due to the lack of fast and direct access to anywhere else in the country.

### Shannon - An Economic Necessity

According to the National Development Plan (NDP) 2000-2006, a necessary condition for economic success is '*to bring together elements of regional policy to achieve balanced regional development*<sup>9</sup>'. However, it is glaringly obvious to most people that the greater Dublin area is the primary policy driver in this country, and as such the regions are often overlooked. Transport policy and practice are no different in this respect, with the bias towards Dublin serving to hinder growth potential in these regions.

The situation at Shannon Airport is a case in point. For example, whilst the western regions can, according to the SDC, claim responsibility for 33% of the economic

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<sup>7</sup> Fitzpatrick Associates Economic Consultants, 2001

<sup>8</sup> Limerick Leader, 1<sup>st</sup> December, 2001

<sup>9</sup> Government Publications, 2000

activity in Ireland, Dublin Airport is responsible for almost 85% of the traffic flowing through this country.<sup>10</sup> Another illustrative example of the under-service at Shannon Airport pertains to the recent loss of early morning and late night return services between it and Dublin, and more worryingly, the loss of same day return connectivity with 14 major EU cities such as Brussels, Frankfurt and Rome.<sup>11</sup> Such curtailment surely represents the antithesis of the situation one would expect to prevail in a small, highly open economy. In response to these concerns, IBEC and ICTU have identified '*the securing of new business at Shannon as the greatest challenge if jobs aren't to be lost*'<sup>12</sup>. Indeed, IBEC has gone as far as agreeing, in principle at least, to providing short-run financial support to any airline providing frequent, cost-competitive, business-friendly service at Shannon Airport.<sup>13</sup>

Without going into detail of the mechanics of how to attract new carriers to an airport like Shannon, I would now like to address the underlying issues regarding the importance of Shannon Airport to the economics of regional Ireland.

#### *Foreign Direct Investment:*

Constant regional access is vital if FDI is to continue unabated into the Shannon region; time-poor multinationals need to be able to access their sites as quickly as possible. The success of the "Shannon Free Zone" through the years highlights the interest that multinationals have in investing in the West. However, it goes without saying that a fully functioning airport is one of the vital pieces of infrastructure upon which their decisions are based, particularly when one considers the export-oriented policies that these companies generally adopt. It should be noted also that the benefits of such FDI do not accrue to the Shannon region alone; a more appropriate way of looking at the airport is as a gateway that diffuses growth throughout its "zone of influence" i.e. the western, and to a lesser extent the southern, seaboard.

#### *Import/Export Requirements:*

The Shannon region specialises in many high-value, low-bulk products such as

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<sup>10</sup> Thompstone, 2001

<sup>11</sup> Irish Independent, 29<sup>th</sup> November 2001

<sup>12</sup> Irish Times, 3<sup>rd</sup> December 2001

<sup>13</sup> Limerick Leader, 1<sup>st</sup> December, 2001

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electronics, chemicals, engineering and pharmaceuticals, products that are ideal candidates for export by air. Indeed, in the year 2000, over 180 companies such as Tellabs, Molex and Cybex exported some 43,000 tonnes of cargo through Shannon Airport.<sup>14</sup> Given Ireland's orientation towards modern industries, and the accompanying pressures of globalisation, JIT (Just-in-Time) production and sophisticated supply-chain management requirements, the need will increase for a level of responsiveness that only an efficient air transport system can give.

### *Cargo Hub:*

Currently, the west of Ireland has an underdeveloped air-cargo infrastructure, and consequently it must rely heavily on road transport of freight via airports such as Dublin, London-Heathrow and even Frankfurt.<sup>15</sup> Not only does this delay production and cause undue levels of road congestion, it also represents a 'missed opportunity' for Shannon Airport in terms of establishing itself as a cargo hub. Table 2 demonstrates this missed opportunity in recent times, by showing how growth in cargo transport at Shannon is remaining somewhat static relative to Dublin.

**Table 2.** Adapted from Aer Rianta Annual Report (2000)

<b>Cargo Transport at Shannon (% of Dublin)</b>	
2000	35.59
1999	31.62
1998	32.70
1997	32.21

Cargo transport is a function for which Shannon Airport is ideally placed to exploit. Firstly, it has the spare capacity that simply does not exist at Dublin, with the cargo growth rate of 21% versus 9.9% at Dublin over the years 1997-1998 indicating possible capacity restraints at Dublin. The COFAR Airport Studies would concur with any redistributory move towards Shannon; as they say, Secondly, Shannon Airport is not constrained by the night-flight curfews affecting many other airports, and as such could operate on a continuous basis. In fact, such are the time constraints of modern production, the ability to operate through the night would lend

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<sup>14</sup> RTE News, 13<sup>th</sup> November 2001

<sup>15</sup> Yahoo Finance, 18<sup>th</sup> March, 1999

Shannon a considerable advantage.

### **The Government, Shannon & Dublin**

There are several adjectives one could use to describe the Government's position on both Dublin and Shannon Airports – confused, weak, and out-dated all seem appropriate. Indeed, the debacle surrounding the construction of the low-cost Pier D at Dublin Airport, which is now almost certain to proceed, is hardly the first instance of infrastructural development in this country in which Government action has been lacking.

Two examples, chosen from many, clearly highlight the reasons why I lack faith in our Government's policy stance on air transport. The first one refers to the fact that the Government claim to support the continuation of the Shannon stopover, and yet it is the withdrawal of flights from transatlantic routes by "their company" i.e. Aer Lingus, that is placing considerable burden on Shannon at the present time. Secondly, in a recently released report prepared by the Department of An Taoiseach to investigate the effects of September 11<sup>th</sup> on Irish tourism, the only reference to Shannon Airport was '*to develop appropriate strategies to increase traffic through Shannon*'<sup>16</sup>. The inadequacy of this response is exacerbated by the recognition by the Government of both the direct impact Shannon has suffered in the wake of the attacks last autumn, and the current under use of resources at Shannon.

Debate has taken place in Ireland for a considerable period of time as to how various actors and institutions would like to see aviation progressing in this country. One side of the argument is synonymous with the Government, and Minister O'Rourke in particular. For several years, the minister has made it clear that she does not subscribe to the conditionality of providing a low-cost base at Dublin Airport for Ryanair in return for Michael O'Leary opening up new routes from Shannon. Her department wishes to see the development of flights at Shannon regardless of the "Dublin designs" of low-cost carriers, and advocates marketing support and other financial concessions to new routes established at Shannon.

Michael O'Leary sits at the opposite end of the spectrum, believing that his efforts to stimulate aviation in Ireland are constantly thwarted by an Aer Rianta monopoly that creates Europe's highest landing fees at Dublin Airport. The development of a low-

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<sup>16</sup> Seanad Debates, 29<sup>th</sup> November 2001

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cost hub at Dublin is his primary objective.

The recent release of a report by Riagis Doganis has not provided total clarity on the issue. On one hand, the report criticises the use of low-cost access as the primary stimulus for attracting carriers, as he believes this cost has little impact on routing decisions, particularly at hub airports like Dublin. Doganis points to Stansted airport as evidence that high costs have not deterred investment by Ryanair in the past.<sup>17</sup>

**Table 3.** Obtained from The Irish Times – 26/01/02

Airport	Charge (£Stg.)
Gatwick	13.09
Stansted	13.09
Frankfurt-Hahn	8.19
Beauvais	7.73
Glasgow-Prestwick	10.10
Dublin	9.61

It should be noted, however, that Michael O'Leary disagrees with the cost statistics as shown in Table 3, probably based on the fact that these statistics include tax charges.

However, the report would also have pleased Ryanair, in that it sees the development of Pier D at Dublin as a viable option, provided it is open to all airlines. In relation to Shannon, the report will disappoint many in that it offers little in the way of suggestion for this airport other than reiterating the Government held position of providing more marketing and financial support.

In my opinion, much of the debate surrounding the future of Irish aviation is not of the healthy variety that advances economic democracy. Rather, much of it is little more than petty squabbling, steeped in political history. Clearly, it is the removal of this political aspect that holds the key for the future, necessitating the ending of the Aer Rianta monopoly to allow airports such as Shannon and Dublin to be dynamic in attracting new business in a manner that is just not possible under the restrictive current arrangements.

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<sup>17</sup> Irish Times, 26<sup>th</sup> January, 2001



This argument presupposes the existence of there being enough “room” in the economy for two airports such as these; this is a supposition that I believe to be easily justifiable. I have identified earlier how important Shannon is to regional economic development, a fact that confers benefits on a national scale also, in light of the pressure that such development alleviates in the Dublin region. The converse is also true; as Bord Failte have commented, a rising tide at Dublin also helps the regions. Rapid growth at Dublin Airport, and to a lesser extent at Shannon (see Table 1) shows how important efficient airports are to our open economy. Currently, an imbalance exists, with congestion issues at Dublin coinciding with under-use of the 4 million passenger potential at Shannon. The need for increasing capacity at both airports in future will also become a primary objective. The Dublin Chamber of Commerce<sup>18</sup> has predicted passenger numbers of 23-28 million for Dublin by 2010, with the corresponding figure for 2020 being 30-35 million, according to the COFAR Study.<sup>19</sup> With long-term development at Dublin expected to push capacity up to only 20 million by 2010, it is clear that Shannon, with its full international facilities, has a vital role to play both on its own merits, and as an alternative to Dublin.

## Conclusion

Although Ireland's economic miracle of the 1990's has made this small island a high-income economy, there is a danger in confusing us with the truly wealthy countries of this world, such as Germany, Sweden or the USA. Why do I make this distinction? Basically, I do not feel that we have the underlying infrastructural solidity of the kind that provides these countries with a relatively stable and unshakeable type of long-term prosperity. As such, I find the position of ambivalence towards Shannon Airport adopted by many in this country rather confusing. Shannon Airport represents a fine piece of infrastructure of the kind that this country generally lacks, and rational economic thought indicates that it could easily be used more effectively as a driver of growth. If I could make one recommendation to the Government of this country, it would be to turn Shannon Airport over to the competitive private sector, so that those who are willing and able to exploit the viability of the airport can have the opportunity to do so.

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<sup>18</sup> Dublin Chamber of Commerce, 1997

<sup>19</sup> Stanley Associates, 2000

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