

**CIVIL AVIATION AUTHORITY**

**MINUTES OF 395<sup>TH</sup> MEETING HELD ON WEDNESDAY**

**21 FEBRUARY 2007 AT 10.30 AM**

**Present:**

**Sir Roy McNulty**  
**Chairman**

**Mr J R Arscott**

**Dr C Bell**

**Mr M J Bell**

**Dr H Bush**

**Mr R T R Jackson**

**Miss C Jesnick**

**Mr J Keohane**

**AVM Moran**

**Mr R P Mountford**

**Capt R O Whitefield**

**Mr R J Britton**

**Secretary & Legal Adviser**

**In Attendance:**

**Miss C Brown**  
**Director Corporate Communications**

**Mr M Smethers**  
**Director European & International Strategy**

**Mr R Townsend**  
**HR Director**

**Apologies for absence were received from Dr C Bell and Capt R Whitefield.**

**I Presentation.**

1. The meeting opened with a presentation by AVM Moran, a copy of which is attached to these Minutes.

## II Minutes of the Previous Meeting and Matters Arising.

2. The Minutes of the Meeting held on 24 January 2007 were approved and signed. On the action points arising:

- CAA's Response to DfT on the Future Holiday Protection System – Agenda item.
- UK Unit Rate – Agenda item.
- Transport Select Committee Report – Miss Jesnick confirmed that the DfT's draft submission had been circulated to Members.
- Bristol Airport Runway Resurfacing – Mr Bell confirmed that internal procedures for handling such incidents had been revised. They will now be dealt with at SRG Executive Committee level. Miss Brown confirmed that the CAA has to react quickly to stories in the 24 hour media.
- International Services – Mr Britton confirmed that CAA Facilities Limited had been re-registered as CAA International Limited at Companies House.

## III Chairman's Opening Remarks.

3. The Chairman reported on the following matters:

- Olympic Delivery Authority – the Chairman's position should be clarified by the end of May.

**Action: Chairman**

- New Transport Select Committee Inquiry – a new Inquiry into Passengers' Experience of Air Travel had been announced. CAA's evidence will come principally from CPG and ERG and the AUC will also respond. However, other Groups may also be involved.

## IV Directors' Reports:

### **ERG – Doc 2007/10 by Dr Bush.**

4. Dr Bush reported on the following highlights:

- EU/US – the prospects of a good outcome for the UK are receding. ERG will undertake work on the benefits of open sky arrangements. The Chairman will write to DfT to give the CAA's view of the position. There is increasing pressure to come to a deal for the March Transport Council.

**Action: Chairman**

- Airport Charging Directive – the Commission's proposals were published on 24 January. A paper is being prepared for DfT on strategies to deal with the draft Directive.
- Airport Regulation – a policy consultation paper for the Manchester Airport price control review was published on 31 January. There was little media reaction. Visits had been made to Leeds/Bradford and Doncaster Airports. It was clear that these airports saw themselves as being in a competitive airport market. DfT's consultation on de-designation criteria should be published this month.

Dr Bush undertook to update the Board in March on the progress of the BAA airports price control review.

**Action: Dr Bush**

5. The Board noted the Report.

**CPG – Doc 2007/11 by Mr Jackson.**

6. Mr Jackson reported on the following highlights:
  - Guidance on the Definition of a Package – DTI has been working to produce draft guidance on the definition of a package. Discussions have been held with DfT, OFT and CAA. DTI expect to consult travel industry representatives at the end of February.
  - British Mediterranean – the airline has been bought by bmi.
  - Flybe – the purchase of BA Connect is nearly complete. The acquisition will make Flybe the fourth largest airline in the UK. This could lead to changes at the smaller end of the market.
  - MyTravel/Thomas Cook Merger – this was announced on 12 February. Subject to competition clearances and shareholder approvals, the acquisition should be completed by June 2007. The merger has been received positively by the City.

7. The Board noted the Report.

**SRG – Doc 2007/12 by Mr Bell.**

8. Mr Bell reported on the following highlights:
  - Bristol Airport Runway Resurfacing – this should be completed at the end of March.
  - EASA/NAA's Second Partnership Meeting – the meeting was generally positive. EASA is finally taking liability issues seriously. A presentation had been given by the DGAC legal adviser on criminalisation of aircraft accidents. In contrast, the budget set for 2007 was inadequate. In particular, there was no money for research.

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The Chairman commented that this was unsatisfactory. The subject of research needed to be revisited by CAA. To improve the position it may be necessary to charge some research to transition costs. The way forward should be discussed at the next SPC.

**Action: Mr Bell**

- Removal of Unique CAA Fatigue Lives – many aircraft imported into the UK in the past had no fatigue life calculated. This was not acceptable under BCARs in the 1960s and 1970s. CAA mandatory requirements for airworthiness were introduced to address the issue. This has led to the UK being in a different position to the rest of Europe. Discussions have been held with EASA to develop programmes to deal with ageing aircraft. CAA will align its requirements with EASA's current mandated fatigue lives and unique CAA requirements will be removed.
- EASA Medical Sub Group – new Implementing Rules for leisure pilot licence medical requirements will be introduced by mid-2008. The FCL core group has agreed that a submission should be prepared for the Commission to reduce medical requirements from JAR-FCL 3 Class 2 to ICAO Class 2 medical standards which would be beneficial for general aviation across Europe.
- Regulatory Age Based Requirements – a test case on the multi-pilot 65 year limit is currently being taken through the European Court of Justice.

9. The Board noted the Report.

**DAP – Doc 2007/13 by Mr Arscott.**

10. Mr Arscott reported on the following highlights:

- European Issues – Luc Tytgat, Head of single sky and modernisation of air traffic control at DG TREN, is visiting the UK on 27 and 28 February. ATM arrangements in the UK will be explained to him.

Commissioner Barot has formed a high level group on aviation regulation. David McMillan is a member. The group offers an opportunity to make progress in this area.

- APC Extraordinary Meeting – a proposed way forward on Mode S was discussed at an extraordinary APC meeting on 13 February. A communication strategy is to be developed for the next APC meeting in May. The Chairman asked Mr Arscott to bring the subject to the Board in view of the external interest the subject is generating.

**Action: Mr Arscott**

- Wind Farms – DTI are addressing initiatives to provide better guidance to local planning

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authorities. DAP has made a contribution on aviation and wind farms. A DAP witness is to appear later this month at the Kyle local planning inquiry into a wind farm development which adversely impacts Glasgow Prestwick International Airport.

- South East Airspace Study
- Heathrow R3/T6 – NATS had given a briefing about their work on airspace designs and operating procedures associated with Heathrow R3/T6 on 8 February. The original 27 combinations had been reduced to three. Each of these will have to be treated as an airspace change and will be dealt with in accordance with the airspace change process.
- Rate of Climb and Descent Restriction in UK Controlled Airspace – agreement has been reached with MoD to meet their special requirements. The impact on civil operations is considered to be minimal.
- Functional Airspace Blocks (FABs) – after a prolonged delay, there has been renewed activity. DfT have asked NATS about progress on the UK-Ireland FAB. The original concept has become rather obscured. A NATS/DAP/ERG discussion would be helpful.

**Action: Mr Arscott**

- CAA Business Continuity – Mr Arscott commented that the response to the closure of CAA House on 12 February due to a burst water main in the area had been good. Staff had been contacted via the telephone cascade and some staff had relocated to Gatwick for the day. Miss Jesnick said that Internal Audit would be carrying out a review on how the business continuity plans had responded to a real incident.

11. The Board noted the Report.

## **V Legal Report – Doc 2007/14 by the Secretary.**

### *CAAPS – Appointment of Trustees*

12. The Board, in its capacity as Principal Employer of CAAPS, resolved to make the following Trustee reappointments for a period of three years from 1 April 2007 to 31 March 2010:

- Nigel Fotherby – NATS Management Trustee
- Tony Cowell – CAA Pensioner Member Trustee.

A copy of the Resolution is attached to these Minutes.

13. The Board noted the Report.

**VI Finance Report – 10 Months Ended 31 January 2007 – Doc 2007/15 by Miss Jesnick.**

*Financial Commentary*

14. Miss Jesnick reported that the CAA's operating profit for the year to 31 March 2007 is forecast to be £883k as compared to the budgeted loss of £1,819k. The changes to the forecast flow from an increase in AOC income and bearing down on the CAA's costs. The forecast rate of return is currently 9.8%. However, this is likely to reduce before the year end due to planned spend on IT and some refurbishment in CAA House.

15. The Board noted the Report.

**VII Human Resources Report – Doc 2007/16 by Mr Townsend.**

16. Mr Townsend reported on the following highlights:

- Pay Settlement for 2007/08 – the settlement at 3.8% broadly represents the rate of inflation during the year.
- Performance Management – work continues on putting a robust system in place before the introduction of performance bonus arrangements for staff covered by collective bargaining arrangements.

17. The Board noted the Report.

**VIII European and International Strategy Report – Doc 2007/17 by Mr Smethers**

18. Mr Smethers reported on the following highlights:

- EASA – ENACT had met to review EASA's certification strategy. This was considered to be fundamentally sound in terms of estimates of manpower requirements but there were a number of transition risks. The EASA Management Board agreed to maintain ENACT in existence to address Agency/NAA interface issues. EASA's budget for 2007 will be inadequate for the Agency's aspirations. However, the draft budget for 2008 is more promising provided that the Commission increases the size of its contribution and the revised Fees and Charges Regulation generates a sufficiently large amount of money. The Chairman said that there must be no let-up in the pressure on the Commission to fix EASA's problems. Although its internal processes are improving, there is still a lack of cash, no research, delay in IT systems development.

- Board Workshop on Europe – this will take place on 28 February at 1 Queen Anne's Gate. The guest speaker will be Sir John Mogg, Chairman of Ofgem.

19. The Board noted the Report.

#### **IX Environmental Report – Doc 2007/18 by Miss Jesnick.**

20. Miss Jesnick introduced the Paper which gave an update on aviation environmental issues. In relation to recent noise research, the Government had announced a study into Attitudes to Noise from Aviation Sources in England. The study appeared to show that there had been a significant change in the perception of aircraft noise and the annoyance caused.

21. Miss Jesnick referred to the proposal to convert the current CAA Aviation Environmental Co-ordination Group into an Environment Policy Committee to advise the Board. The membership of the group would be strengthened by including GDER, DAP and a non-executive Member as Chair. A working group below Policy Committee level would be retained.

22. Members agreed that the provisional Terms of Reference for the Aviation Environment Policy Committee were satisfactory. The Chairman said that he needed to consider further who would chair the Committee.

23. The Board –

- Noted the recent developments in civil aviation and the environment.
- Agreed that the CAA Aviation Environmental Co-ordination Group be renamed the CAA Aviation Environment Policy Committee with changes to membership as set out in paragraph 10.4 of the Board Paper.
- Endorsed the provisional draft Terms of Reference for CAEPC and noted that the final version of the Terms of Reference will be submitted to the Board for approval.

**Action: Miss Jesnick**

#### **X Future Holiday Protection System – Doc 2007/19 by Mr Jackson.**

24. Mr Jackson reminded the Board that the methodology for the process had been approved at the November 2006 meeting. There had been a series of meetings with DfT, DTI, the Better Regulation Executive and HM Treasury. report on the financial modelling of the Air Travel Trust Fund was attached to the Paper. The scenarios for a major failure had been tested. The largest licence holders had confirmed their numbers. There was 95% confidence that a £1 consumer protection charge would work. There was a transition risk to the levy. However the

robustness of the Fund had been tested as set out on pages 36 and 37 of the PwC report. The biggest risk would be a failure of one of the top four operators.

25. There had been two developments since the production of the report. The first was the Thomas Cook/MyTravel merger which would increase the size of a failure from £250 million to £350 million. However, this will diminish over the next year as the two companies integrate. A failure costing £300 million would not invalidate the model. Secondly, regulatory oversight of medium sized ATOL holders is being tightened up so as to reduce risk of failure.

26. DfT officials have briefed Ministers. They are content but are keen to distinguish the consumer protection charge from airport passenger duty. The Treasury are satisfied that the DfT's guarantee can be withdrawn within three years.

27. The Board noted the Report.

#### **XI UK Unit Rate – Doc 2006/20 by Miss Jesnick and Dr Bush.**

28. Dr Bush introduced the Paper which set out a comparison of the UK's Eurocontrol unit rate compared to other major States and to the Eurocontrol average since 2001 together with the factors that should be considered in making a comparison between NATS' charges and its European counterparts. While the UK's unit rate is the highest for 2007, the comparisons show that the unit rates of other States fluctuate more than the UK's due to the under/over recovery system that is used. Dr Bush said that from his Performance Review Commission experience, it is clear that other Member States do not have the same transparency when setting their unit rates as is the case for the UK. NATS is subject to price control reductions which will ensure a downward path. While other States promise that their unit rates will decrease, in contrast to price controls, this cannot be assured.

29. It is still the case that NATS is burdened with legacy issues. In particular, the Swanwick Centre had been very expensive which is reflected in NATS' depreciation charges. NATS' financing costs are also higher. UK airspace, particularly in the South East with its concentration of airports and descending and ascending traffic, is expensive to operate. While individual years might not look good, the trend over a number of years and against a broad weighted average of charges, shows that NATS' relative performance is reasonably good.

30. The Board noted the Paper.

**XII Any Other Business.**

**(i) Agenda Plan Update.**

31. March 2007 – remove Progress Report on Air Transport White Paper.

April 2007 – add Progress Report on Air Transport White Paper and BAA Price Review Progress Report.

**The next Meeting of the Authority will be at 10.30am on Wednesday 21<sup>st</sup> March 2007 in Conference Room 1 CAA House**