

**Speech by Iain Osborne, Group Director of Regulatory Policy at the UK Civil
Aviation Authority**

Welcome to Total Economic Value Seminar, 16.7.2012, London

I am grateful for the opportunity to add my welcome to that of my colleagues.

I am delighted to see so many of you here to discuss the important interdependencies between the key performance areas of capacity, environment and cost. Understanding these links will show more clearly how air navigation service providers can create value for users and their passengers; and show how regulation, in the context of the 2nd Reference Period, can support this value creation.

It may help us engage better with this important debate if, right at the beginning, I can exorcise a ghost. The phantom is this: that the notion of Total Economic Value is a “smokescreen” to distract attention from cost-efficiency.

Let me say clearly, on behalf of the UK CAA: TEV in no way lessens the importance of cost efficiency.

We were left in no doubt whatsoever, by the Performance Review Body’s reports on the UK’s RP1 targets, that it thought NATS’ Determined Unit Rate was high, and failing to reduce quickly enough. The PRB thinks it; the European Commission thinks it; I know a lot of NATS’ users think it.

RP2 needs to be different. The UK and CAA have been and continue to be strong supporters of the Single European Sky Performance Scheme with its target-setting and incentives programme to drive performance, and it is not the CAA's intention to challenge that programme. Our aim is rather to use it, to add value to our own efforts, so as to accelerate progress.

So for the Second Reference Period, we do really want to get to grips with cost- efficiency. But that does not reduce our interest in Total Economic Value.

TEV and cost efficiency are not alternatives. It is part of an ANSP's core role to develop airspace and improve the service it offers. We can give no house-room to the notion that an ANSP can threaten to step away from that role, unless we allow it to be over-manned and over-paid.

That is not to deny that there may be times where TEV might be greater if we allow for a quicker pace of investment, or where progress might be hindered if we cut into core capability. Such may be the case – but it is a case that needs to be made and justified rigorously, not accepted without question.

So if you came today, prepared to argue strongly for the importance of cost- efficiency... that door stands ajar, and open. But that is not our main theme today. My hope – indeed, my request – is that we should not let that issue to

distract us, and so waste the opportunity that today's seminar offers to focus on the related, but different issue of Total Economic Value.

To begin our proceedings, it is my pleasant duty to introduce Professor Martin Cave. Martin is currently Visiting Professor at Imperial College Business School, and is one of the UK's most eminent commentators and advisers on competition law and economic regulation. His advice is notable in being grounded both in sound economics and robust common sense, so he has been much in demand to advise UK ministers. He has produced seminal reports on matters as diverse as competition in the water sector, regulation of social housing and legal services, not to mention his review of how the CAA should regulate airports – and of when we should not! He has also advised regulators in the railway and energy sectors in the UK, and regulators and governments around the world.

Martin, we are delighted that you have agreed to Chair today's proceedings.

So I think it is time I shut up, and let you get on with them!