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Sent by e-mail to [npp@caa.org.co.uk](mailto:npp@caa.org.co.uk) 6 May 2011.

Dear Matt,

**Draft UK National Performance Plan (NPP) for ANS – Joint IACA & IATA response.**

Thank you and your team for the consultation on the UK NPP on 19 April. As you know from this meeting we are extremely disappointed at the proposed UK cost-effectiveness target in particular.

We have consistently supported the EC Performance Scheme as a vital step to drive efficiencies in ATM and a critical pillar of the Single European Sky (SES) in line with the political vision to achieve a more competitive Europe. We were under the belief that the UK had fully supported the Scheme at the European Council, the Parliament, and the Single Sky Committee (SSC).

In this regard the UK already has more than ten years experience with economic regulation of its ANSP and ATM and should be a leading example to other States. We are therefore consequently dismayed at the UK cost-effectiveness target of only -1.1% per annum 2009-2014 which is significantly less than the -3.2% for the EU-wide target. We expect more robust leadership and example from the UK

This is also against the background that the UK EUROCONTROL unit rate increased +7.5% this year 2011 which is the by far the largest increase of the “big five” European ANSPs and seven times the average increase. UK is now the second highest unit rate in the EUROCONTROL area as well the highest of the “big five”.

In these circumstances we cannot accept the approach that the UK cost-effectiveness targets have already been decided within the CP3 price control review. While we were closely involved in the extensive and comprehensive CP3 process, the CAA Decisions of December 2010 do not reflect the well-recorded views and requirements of the users in relation to cost-effectiveness. In our view the CAA Decisions were the result of benign economic regulation which was insufficiently challenging as well as a poor example for the rest of Europe.

Furthermore the CP3 process was organized well before the adoption of the EU-wide targets and in our view certainly does not meet the current ambition of the performance scheme. We therefore believe the UK cost-efficiency target does not meet the first two assessment criteria within Annex III of the Performance Scheme Regulation.

The UK approach is also inconsistent with Article 10 of the Regulation whereby States shall draw up performance plans containing targets consistent with the EU-wide performance targets. The UK insistence on maintaining the CP3 cost-effectiveness decisions made prior to agreement of the EU-wide targets and not to further consult on these can also be considered in breach of Article 10 requirement for States to support the preparation of the performance plans through consultation of the stakeholders on the performance plans and targets.

It should additionally be considered that the EC cost-effectiveness has been watered-down by the SSC from the originally proposed Performance Review Board (PRB) target of -4.5% per annum to -3.5% for Reference Period 1 (RP1). In our view, given the PRB assumptions of +2.7% traffic growth and inflation of 1.9% over the RP1 timeframe, the -3.5% target is not a serious challenge to ANSPs to reduce costs as they can meet the cost-reduction target simply by containing costs. We believe that the EC-wide targets should therefore be the absolute minimum.

Even at their absolute minimum level, it is unclear how the EC States will be able to achieve the politically agreed SESAR objective to reduce costs by 50% by 2020 unless more robust targets are agreed for the second Reference Period (RP2)

We recognize that the CP3 decisions were impacted by the traffic downturn and the extremely large increase in pension costs and liabilities. However, as the NATS pension scheme is within the control of the company we cannot accept that these should be treated as “uncontrollable costs” within the Performance Scheme definition.

Neither can we regard EUROCONTROL costs as “uncontrollable” given that the Agency’s costs are endorsed by the States including the UK through that body’s Standing Committee for Finance and the Provisional Council.

Given that the UK was more impacted by the traffic downturn compared to much of Europe and has a slower forecast recovery rate, and that the forecast impact the Determined Unit Rate, it should be considered that the relatively high UK unit rate is a deterrent to increased airline operations.

During discussion on the claimed increased financial exposure due to risk-sharing under the Performance Scheme, a comment was made during the meeting that all the risks are now taken by the ANSP. This is certainly not the case with traffic where airlines still bear 70% of the risk. Indeed, we do not believe airlines should take any of this risk and that ANSPs should provide a fixed price as in any other business.

We find it unacceptable that the UK regards this first RP1 as a test or transition period and that the targets will become more serious in the next period. We must emphasise that for the airlines operating in a de-regulated and increasingly competitive industry the situation is already extremely serious, and we expect robust targets in line with the SES objectives as a minimum.

Given the relatively good delay performance in the UK achieved in 2009 and 2001 we are surprised that while the proposed UK capacity/delay targets for RP1 (0.34, 0.39 and 0.30 minutes delay per flight respectively for 2012-14) are above the EU-wide target of 0.5 per annum, they are significantly lower than the EUROCONTROL indicative reference values (0.31, 0.28 and 0.27 respectively) for the UK for the same period. These reference values are referred to in Annex III of the Performance Scheme Regulation.

Our understanding is that during the Performance Scheme negotiations all States had previously agreed that the EUROCONTROL mechanisms were sufficiently robust. Given the relatively generous delay bonus payments allowed to NATS within the CP3 regime we therefore would expect these targets to be re-examined.

With regard any additional safety targets we believe these should be coordinated between UK and Ireland as part of FAB cooperation and should be consistent with any EASA deliverables.

As you may be aware we fully support the NATS work on an environmental metric that includes reflection of vertical as well as horizontal efficiency. During the CP3 review process we urged for earliest possible application of this metric as soon as it is considered sufficiently robust. We hope such a metric will eventually be considered by the EC for application by all States for RP2.

This joint UK and Irish consultation on the individual national plans served to emphasise the lack of any real savings from the UK & Ireland FAB. While we naturally very much appreciate the welcome delay and fuel cost savings from the FAB, this can be regarded as the "low-hanging fruit". The fact is that such operational efficiencies can and should be achieved by normal ATM cooperation between neighbouring ANSPs irrespective of whether or not there are any FABs. Real financial savings and efficiencies through genuine ANSP FAB consolidation

would provide the vehicle for more meaningful cost-effectiveness targets and better assist the EC political and SESAR objectives to reduce costs by 50% by 2020.

In the meantime our major concern is clearly the UK's insufficiently challenging cost-effectiveness and capacity/delay targets for RP1. As a leading and influential EC and EUROCONTROL member State, responsible for some 9% of total traffic and en route costs, we strongly urge the UK to re-examine these targets in line with EC Performance Scheme and users' requirements.

Geneva 6 May 2011