

AVIATION CLUB LUNCH SPEECH – Dame Deirdre Hutton

11 February 2015

Introduction

- Thank hosts for warm welcome.
- The Club is celebrating its 25 anniversary - many congratulations
- The CAA was instrumental in setting up the Club and has always supported it.
- It is an important forum to share views and thoughts and useful to the CAA as a way of getting feedback from an informed/influential audience.
- Many of my predecessors have stood before you with no doubt varying levels of anxiety.....Sir Roy McNulty spoke here several times about the work of the CAA.

It is now about five years since Andrew Haines and I generally shocked the industry by coming respectively from railways and food safety regulation. Since then there has been considerable change in the CAA and there have been very significant changes in the external environment which I place in three buckets, each of which I will touch on today:

- First, changes to aviation;
- Second, changes in consumer protection and consumer views;
- Third, changes to the thinking about regulation

In relation to the last of these, when this Government came to power there was a strong intention to abolish regulators where possible and those that were to survive had to meet three tests set out by Francis Maude, the Cabinet Office Minister.

He said that regulation was only required if a subject was:

- technically complex
- where the regulation needed to be seen to be independent
- where there was a requirement for impartiality

I think you will agree that the regulation of aviation meets these criteria. In addition, of course, the Government has placed a heavy emphasis on de-regulation.

So - the CAA is still here - still playing an important role - namely to protect the public both from physical and economic harm - and that public can be either direct consumers of aviation or third parties who are affected by it.

Over the next twenty minutes my intention is to cover some of the critical areas currently affecting aviation and the CAA. Against a background of developing the next strategic plan - an ideal opportunity for all stakeholders to inform our future direction

Safety

It seems obvious that we should start with safety - it is the thing that consumers want most - there is such a good record that UK consumers take safety for granted, but all in the industry know that safety is like freedom - constant vigilance - and that is why the CAA devotes so much of its resources to safety.

- UK record is fantastic
- but recent incidents round the world show we cannot take this for granted.

Aviation is a fast moving and innovative industry - it has traditionally been an early adopter of new technologies. This makes it a fascinating industry to work in and carries many benefits. But it also carries risks - perhaps particularly that we fail to recognise the

collective accumulation of new technological risks. The newest airliners may generically look like a standard airliner from any time in the last few decades, but huge elements of construction, engines and materials are substantially different.

The development of new and yet faster means of streaming data means the potential for more and more information in the cockpit. However, there have been events recently where the interaction between complex cockpits and pilots has emphasized the importance of human factors both in pilot training and during their working lives.

Equally, other quite new challenges crop up:

- drones
- laser attacks

To keep improving the safety record - which is the CAA's aim - we have to modify how we work. The raw statistics tell us why that is the case:

- in 2013 airlines carried 230 million passengers
- in 2030, 315m
- in 2050, 445m

Consumers will not accept that a rise in movement equals a proportionate rise in accidents, so we have to improve further.

The CAA's response to this challenge is to transform our oversight to performance based regulation. How effective an aviation organisation or company will be depends on many things:

- Its management, culture and ethos
- Its finances

- Its training, operations and maintenance etc

The heart of performance based regulation lies in the CAA pulling together information on all these aspects of a company into one over-arching picture which will allow us to form a view as to whether that company is operating in a responsible, risk-managed way.

Further, the overall picture for each company is managed by one small regulatory team, rather than individual people covering only their precise specialty.

There are many benefits to this approach:

- use our limited resource to target areas most at risk
- one line of contact with those we regulate
- can act more effectively in partnership with industry
- help those we regulate to target their own risks and help them to develop their own safety management systems to handle those risks

This more holistic data allows us to build a cross-industry picture which can be shared - for example, data on all operations of a certain type of aircraft can be shared with all airlines using it.

Let me develop this a step further: safety information on an operator traditionally came into the CAA in separate boxes - some to airworthiness, some to flight operations, licensing etc. - but there was no overall collation. So a series of small issues might never be put together and thus could be ignored. However, if you were to add all those small issues up, they might lead to a serious concern about a company's safety record. We now have a much better system of tracking those issues collectively.

I am very pleased to say that it is a move being followed by all leading regulators internationally - which is of course another way in which the CAA helps to protect UK consumers as they fly beyond our shores and with other airlines.

Airspace

Airspace is highly significant for the CAA. It affects:

- resilience
- capacity
- economics

Mention aviation capacity and most people's focus is on runways. But from our perspective the state of the airspace is equally important - and certainly highlighted by the Airports Commission as a potential way of alleviating medium term capacity.

The basic structure of our airspace - the routes aircraft fly and how airspace is allocated between users such as airlines, military and private aircraft - was developed over forty years ago. If we are to meet future demand safely and efficiently, a significant investment in the current system is required.

The CAA has set out the Future Airspace Strategy (FAS) to align with European developments and technological changes, to reduce the impact of aviation on the environment and balance the needs of all airspace users. FAS is expected to:

- reduce fuel burn by 160,000 tonnes a year
- to reduce CO2 emissions by 500,000 tonnes a year
- to reduce passenger delays by 1.1m minutes a year
- to deliver noise reductions from fewer aircraft holding at low levels
- to give airlines a 10% saving in fuel

- to reduce airport stacking in southern England by 40% by the end of 2015 - with the ultimate aim of removing it completely.

These are huge benefits. But the trials to test FAS and changes to airspace have raised very considerable concerns from those being overflown and it would be no exaggeration to say that in the last six months I have received thousands and thousands of letters, emails and tweets from the general public. These have highlighted how important it is to consider the views of all stakeholders.

So - there must be new thought on how airspace change is delivered and we look to industry not only to commit itself to taking airspace change forward, but also to commit itself to thinking about HOW the change is taken forward in a way that respects the right of third parties who are affected in a range of ways by the activities of aviation.

Capacity

Of course airspace changes do not solve everything without runway capacity - without that, extra capacity problems will occur and possibly with increasing frequency. For example, although the recent NATS system failure lasted for only 40 minutes, the knock on effects were much longer due to the lack of resilience in the system.

Capacity constraints are, I believe, already affecting consumers - reduced choice, operation resilience - to name but a couple of effects - and this will inevitably worsen as London's airports fill even more.

We would like to see new capacity operational by 2025 in order to help mitigate the adverse impact of constraint on consumers. But those are the consumers who are

actually flying and there will be strong views from those who are overflown. So we believe that new capacity will be facilitated most effectively by strong community engagement, a sharp focus on noise nuisance and a legally binding and comprehensive compensation and mitigation package. We have a **once in a generation** opportunity to expand capacity. We must not lose it because of a failure to recognise the perfectly legitimate needs of those who live their lives under a flight path.

In considering community impact, the CAA would like to see:

- the establishment of a community engagement forum
- a much more robust conversation on the importance of respite
- more thought on concentration vs dispersal of noise
- consideration of night noise.
- more transparency in clear language

Some changes to the institutional landscape may be possible and on the face of it may seem attractive. But merely shifting the organisational deck chairs will not solve the fundamental problem and all parties should think carefully about whether any changes to the existing institutions or creating new institutions, however, constructed, will really help.

When, as I hope transpires, we have a new runway, it will be important not to repeat the example of today's scheduling. Space must be left to create some capacity for resilience.

Finally, on the subject of runways, costs to the consumer must be managed, minimised and efficiently incurred. Whether or not the CAA is still economically regulating any London airport, we will continue to protect the consumer from costs that are not efficient or in their interests.

In the meantime we will continue to support the Airports Commission with technical advice - which is where we can add most value. But we have also made clear that we believe that any new capacity must be safe, sustainable, demand-led and affordable - with the final decision based on the best possible option for consumers who will in the end carry the cost.

Consumer Protection

Competitive markets are good for consumers, and airlines will in many cases be good proponents of the consumer interests

- but markets do not always work wholly in their interests
- there is a role for the regulator in creating better alignment
- and also in ensuring financial protection where markets do not work

This is a key area of our work from holiday protection to flight delay compensation.

Many here will deal with the legislation around delays and cancellations. Many will feel that the 261 regulations are a poorly drafted European law that causes some uncertainty. However, it is the law and must be enforced. All I would say to you is that it remains a major issue with media and passengers - in deciding how to respond, airlines perhaps should think of their long term reputation when they decide their policies.

CAA research shows most consumers are pragmatic and will accept a fair solution.

I think it is possible that alternative dispute resolution (ADR) could be a sensible way forward. The European Directive establishing ADR becomes law in the summer and will give the airlines a real option to take more control of complaints handling. It may also be

fairer in that those that cause the most delays will pay the most to run the service. And consumers will benefit through binding decisions.

I have been encouraged by the interest that industry has shown in this possible development. BATA is actively involved in discussions and BAR-UK is also engaged. I look forward to a successful outcome.

Better Regulation

When I began today, I talked about Francis Maude's approach to regulation and over the last few years we have sought to follow the principles of better regulation. For us, that means only regulating where it's necessary to protect consumers by:

- making aviation safer or
- where we can bring about more competition

But there is another leg to regulation which I believe is also important. Namely that we give clear, accurate information to consumers so that they are able to make effective, informed choices over their air transport or the effect that aviation has more generally without further intervention from the regulator. That is the theory behind the new legislation that allows us to collect and publish much more information on the industry.

So, for example, we could show a comparison of the performance of different operators on the same route. And we could show that perhaps based on CO2 efficiency of aircraft types or by an easy comparison of how punctual different operators were to the same destinations.

The final aspect of regulation I wanted to touch on is removing it altogether and we do constantly review whether we can reduce our regulation.

At one end of the spectrum, the outcome of the Q6 economic regulation of airports saw us reduce regulation on Gatwick by allowing them to negotiate their own deals with airline customers with our oversight rather than direct regulation. And Q6 also saw Stansted being removed from regulation altogether.

At the other end of the spectrum, we have changed the way we now aim to treat the lighter end of aviation - general aviation (GA).

In GA, primarily the people affected are the pilots flying the aircraft. They understand, or should understand, the risks they are facing and should be allowed to make many of their own decisions around their flying. Looked at in that way, the CAA were over-regulating in many areas. So the past year has seen us adopt a new policy framework for the area which by default, ensures we only regulate if such an intervention is essential and there is no one else better placed to do it, such as a GA representative group.

Where we will properly continue to regulate is where we need to protect third parties - other air transport users, those who are over flown or those who are GA passengers.

This change in approach has already delivered a significant number of projects that the GA community has wished for, for some time - including complete deregulation in some areas.

Our work with GA is also closely tied to European regulation. As many of you know, the European Aviation Safety Agency (EASA) sets out many of the rules for Europe that we follow and so there are areas where to get change, we have to influence Europe rather than just re-write a law for the UK.

Although I do not have time to cover the rather large subject of Europe, it is fair to say that one of the big changes in the CAA over the past few years has been the increasing amount of effort we put into negotiating, discussing, helping and shaping what goes on in Europe. EASA affects almost everything we do in the UK and we can significantly enhance the outcome for UK aviation by collaborating fully with our European partners and, I believe, leading them on occasion.

Summary

As I come to the end of these remarks, I am conscious that there is much about the CAA I have not covered, for example, security. But one of the characteristics of the CAA is the breadth of different areas of involvement it has with the industry. But I hope I have told you enough to illustrate that we are a conscientious and thoughtful regulator, striving to fulfill our legal objectives while working in partnership with industry. And as you constantly require to change to face a moving marketplace, so we also recognise the need to change to ensure that we remain an effective regulator, not just in the UK, but also well beyond our shores.

These are an important few months for the CAA and indirectly, for you - as we thrash out our strategic plan in the course of this year, we look for input from you. I doubt you will agree with everything we do and say, but I do want you to feel that we have considered

your views properly. We will be talking directly to key stakeholders throughout 2015 and we are committed to a public consultation on our draft strategic plan.

The last five years have been challenging - the next ten will be more so. So I want to leave you with the sort of questions that will be keeping us busy and which I know you will also be thinking about:

- how will aviation develop over the next ten years?
- how will it affect consumers?
- in ten years time what sort of technology might you be using?
- what will airline business models look like
- and what do you think the CAA should be doing more or less of

Thank you