

**CONTRACT TO SUPPLY AIR TRAFFIC SERVICES/AIR TRAFFIC ENGINEERING FOR
CARDIFF AIRPORT – PROCUREMENT STRATEGY**

1. Cardiff Airport's (CWL) current contract for the provision of Air Traffic Services (ATS) and Air Traffic Engineering (ATE) expired on 31st March 2013. Due to the fact that this occurred during the period of due diligence for the purchase of the Airport by the Welsh Government (WG), the contract was extended until 31st March 2014, with an option for a further 12 months to transition the contract if required. The contract currently includes a schedule for the provision of radar approach services to St Athan airfield. However, within the 2015-16 timeframe, there is an aspiration to extend the contract to include Tower services at the airfield in line with the WG's 'One Airport, two Runways' concept for the 2 sites.
2. In accordance with procurement law, Cardiff international Airport Ltd (CIAL) is a 'utility' and is subject to the Utilities Contracts Regulations 2006 (as amended) (UCRs). Air Traffic Control (ATC) services are classified as 'Part B' services under UCRs, falling within Service Category 20 (supporting and auxiliary transport services), which means that the UCRs apply only in part. Under the applicable provisions of the UCRs, CIAL is not bound to run a fully OJEU compliant tender process for a replacement ATS/ATE contract, but as the total value of the contract would exceed the threshold (£374K) for services contracts, the core principles of transparency, non-discrimination and equality will apply. This means that CIAL must consider whether there is likely to be competition to provide the services, and if so what tender action (if any) is appropriate to open up the services to competition. For the reasons set out below, CIAL is of the view that there is only one possible provider of the particular services required by CIAL, and that therefore negotiating a contract directly with NATS is the appropriate course to take.
3. The scope of a replacement contract for ATS/ATE at Cardiff Airport is driven by the Company's vision for ATC, which is to create:

"a cost-effective, integrated system of ATS provision that will as well as CWL, supports operations at other government-owned and possibly privately-owned aviation establishments across the Nation"

This vision would be delivered through a 3-phased strategy:

- Develop a combined ATC establishment for CWL and St Athan for both tower and radar with the aim of achieving maximum economies of scale
- Use advances in regulatory approvals and technological developments to facilitate the reduction in costly ATC staff and to remove duplication across the operation. Examples include radar in tower (RiT) single-controller operations during quiet hours and the development of a remote tower for St Athan
- Develop CWL as a regional centre of excellence for remote ATC capability across Wales

4. In order to meet the requirements of the vision and strategy for ATC, a future supplier needs to have a very broad range of competencies. In particular, to enable CIAL to meet the objective of providing a combined operation across the 2 government-owned sites, within the time-frame of a 5-yr contract, we must have a Air Navigation Service Provider (ANSP) that has experience of both commercial and military ATC regulation and service provision, as there will be a requirement to operate for some of the contract term under the regulatory oversight of both the CAA and the MAA. It is also imperative that the ANSP has the experience and expertise to innovate in terms of the introduction of new technology, some of which will require the supplier to work with the CAA to gain regulatory approval. Finally, with the third phase of our strategy for ATC involving the development of a regional centre for excellence for remote ATS capability across Wales, it is advantageous for any future supplier to be able to provide the infrastructure necessary to support this, particularly in terms of radar data.
5. A review of recent procurement activity in the industry suggests that there would likely be limited credible competition for the CWL ATS/ATE contract. Two recent tenders have taken place at Luton and Birmingham airports. In the case of the Luton competition, there were 2 suppliers that went through to the final phase of the tender exercise – NATS and the Peel Group – and NATS won on price. In the Birmingham tender, NATS entered one of only 2 compliant bids and lost out to an in-house solution. Within the past 2 years, 2 airports – Belfast and Manchester – have conducted a negotiated procedure with NATS for renewal of existing contracts.
6. The procurement strategy that CIAL has elected to pursue is to follow a negotiated procedure with NATS, our current service provider, with an option to enter a tender competition if negotiations with NATS fail to deliver a cost-effective solution for the Airport. As well as NATS' commitment to deliver a competitive price, the key reason behind this strategy has been our considered view that NATS is the only provider at present that has the capability now to work with us to deliver the Company's vision for a centralised control function at CWL, in terms of regulatory credibility, the availability of organic infrastructure and also the expertise and experience of en route and commercial and military airfield operations. In particular, NATS has extensive experience of working in a dual civil/military regulated environment and has the experience of transitioning between the two and also the company has the only remote tower facility approved in the UK¹, which supports the evolution of similar technology at CWL. Finally, our decision is reinforced by evidence of limited credible competition for NATS during recent tenders with the very strong likelihood that we would retain NATS as our ANSP even after running an expensive tender competition.

¹ London Heathrow contingency facility