



# Air Traffic Services in airports through the Covid-19 crisis: proposal for a Capacity Retention Scheme

Submission by Prospect

**22 April 2020**

[www.prospect.org.uk](http://www.prospect.org.uk)

## **Towards an Airport Capacity Retention Scheme:**

### **Proposal on emergency funding for the continued provision of Air Traffic Services at UK airports**

1. The COVID 19 crisis has resulted in a reduction of air traffic by approximately 90%. This has had a devastating impact on the whole aviation industry, which contributes £22 billion and 230,000 jobs to the UK economy<sup>1</sup>. It is the largest aviation network in Europe.
2. Underpinning the whole industry, and fundamental to its operation, are the airports throughout the country which allow aircraft to take off and land and facilitate the movement of passengers and cargo to global markets. Heathrow is one of the world's great 'hub' airports linking UK plc with the rest of the world. Many regional airports provide a lifeline to rural communities and support regional economies.
3. Airports are a key part of UK infrastructure. They should be considered as important as the road, rail and water networks. Although the airports are liberalised and run in a competitive market, in these times of national emergency a strategic UK overview is needed to ensure that these crucial elements of infrastructure survive, to support the reopening of the economy and allow previous levels of connectivity to return.
4. The aviation industry is considerably more than just the airlines, despite them being the focus of attention. If aircraft have nowhere to land, they are superfluous.
5. Airports by their very nature are fixed infrastructure assets which require certain elements to operate, eg fire and rescue services, air traffic control, security, airfield operations etc. They are required irrespective of traffic levels. These services are very difficult to flex with different traffic levels because of their specialist nature and the requirement for them to operate whenever the airport is open, whether there is one aircraft movement or one thousand.
6. But airports operate in a largely unregulated market on a business model which relies heavily on revenues from retail and car parking. Hard data is limited because of commercial confidentiality, but an international study found that 'non-aeronautical' revenues typically account for two-thirds of airports' income - retail (28%), car parking (22%) and property rental (15%)<sup>2</sup>. Many smaller airports have seen landing fees driven down by competition for airline customers to the point that they are a small proportion of income. Only larger airports are able to levy decent charges for aircraft parking. But, whatever the mix, the bulk of airport income is driven by passenger numbers. This model is arguably unsustainable in the longer term as, even with a recovery in aircraft movements post Covid-19, it is highly likely that passenger numbers will be reduced as a result of long-term social distancing.
7. This business model is certainly not sustainable in the short-term. Just like airlines, airport operating companies have suffered a massive drop in income and are experiencing severe cashflow difficulties. This is having a knock-on effect on essential airport services, of which air traffic control is a crucial element. Air traffic control services are either provided for 'in house' as a department of the airport or contracted out by the airport operating company to a third party 'Air Navigation Service Provider (ANSP)'.

---

<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/769696/aviation-2050-print.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/769696/aviation-2050-print.pdf)

<sup>2</sup> [https://aci.aero/Media/40668803-c552-4df1-a6aa-896de03ce933/mZG4Hg/Publications/Preview%20Editions%20and%20TOC/2015%20ACI%20Airport%20Economics%20Report\\_Preview\\_FINAL\\_WEB.pdf](https://aci.aero/Media/40668803-c552-4df1-a6aa-896de03ce933/mZG4Hg/Publications/Preview%20Editions%20and%20TOC/2015%20ACI%20Airport%20Economics%20Report_Preview_FINAL_WEB.pdf)

8. As a result of the airports' cashflow problems, air traffic services are coming under significant pressure. But they are a fixed cost providing a specialist role. The costs are fixed insofar as an airport has to have an air traffic service covering all the hours it is 'open' and the core components of the service do not vary significantly with the volume of aircraft movements and certainly not with the number of passengers. For this reason, where the service is contracted-out on commercial terms, the contracts are fixed-price. Airport operating companies are now seeking to reduce their payments for this service. This presents huge risks as air traffic staff would have to be cut. This could hamper continued service provision (for cargo, humanitarian and repatriation flights) and puts at risk the industry's ability to return to previous levels of service. Air Traffic Controllers and ATC Engineers take a long time to train and need to maintain currency at their unit; the supply cannot simply be switched back on again. But it is not clear how a 'recovery' pool of labour will be funded and maintained. It would be a major strategic failure if the industry starts to recover, only to find the airports can no longer provide the capacity due to air traffic services not being able to cope, all because of what is hopefully a short-term cashflow crisis.

9. Much of the public and political attention on aviation during the Covid-19 crisis has been on airlines. Putting aside the rights and wrongs of supporting airline companies *per se*, it will not be enough to expect support for airlines to 'trickle down' through the supply chain. The revenue model is based on movements and passenger numbers, not the availability of infrastructure and capacity.

## Proposal

10. In order to ensure continuity of service, provide relief to UK airports with respect to their fixed costs and to ensure that services can be maintained at a level to allow the industry to recover, it is proposed that short term financial assistance for the provision of air traffic services at UK airports is facilitated by the UK Government.

11. This could replicate and follow the principles of the agreed Eurocontrol initiative that has been instigated for the distribution of en-route charges to European ANSPs, including NATS En-route Ltd (NERL).

12. For the financial year 20/21 the UK Government would advance the cost of air traffic service provision at UK airports requiring such assistance, either through the airport itself, or direct to the ANSP.

13. This cost would be the amount required for immediate service provision continuity, together with ongoing costs needed to maintain staff for recovery, minus any furloughing rebates and discounting other costs such as profits, unessential overheads and development costs.

14. If the recovery of the industry is slow or partial, this support should continue to be underwritten by the government pending a better understanding of the likely restructuring of the industry. In the event that there is a full recovery the government would be expected to seek partial or full recovery. The costs could be repaid in a number of different ways over future years to be determined.

15. Mechanisms to repay these costs could include:

- a. the airport repays the costs over a number of years, in line with the trajectory of recovery;
- b. the costs could be recovered from an element of Air Passenger Duty;
- c. the costs could be a surcharge, post Brexit, to UK en-route charges, spread over a number of years.

16. This proposal would ensure adequate funding for the continuation of air traffic services at UK airports throughout this crisis, help protect airports from financial collapse and thus allow the infrastructure to be in place to aid the economic recovery.