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Dear Matt,

This letter forms the response of M.A.G to the CAA's consultation on the Draft UK Ireland RP2 Performance Plan.

Our response to the CAA's earlier consultation set out the Group's view that competition should be favoured wherever possible over regulation. This is because regulation is likely to be more costly and represent a backward step in the evolution of a market for terminal air navigation services. At the same time, we recognise that there are currently limited alternatives to NATS. For this reason, we see value in putting in place measures to both encourage the development of a contestable market and provide protection in the interim.

We therefore welcome the CAA's commitment to carrying out work to identify the actions needed to enhance the level of contestability in the market for terminal air navigation services. We agree that any interim regulatory regime should take care not to frustrate or distort the potential for a contestable market to develop. From our own perspective, there are some positive early signs that the potential for more formal regulation of terminal services is encouraging NATS to adopt a more commercial and responsive approach to contract negotiations.

However, it is important that the CAA continues its twin-track approach of encouraging the development of a contestable market and putting in place a clear regulatory framework for terminal services. This framework could be used on a 'step-in' basis in the event that a contestable market does not emerge and contract negotiations fail to produce an acceptable outcome. The existence of this framework will, in itself, reduce the likelihood of it needing to be formally used.

Turning to the specific points in the consultation document relating to UK terminal navigations services:

- Overall, we believe the proposed targets are acceptable, but not aspirational. We would like to see more stretching targets.

- For example, the **capacity target** for Stansted Airport is somewhat weak at current levels of throughput (though projected growth should see it becoming more realistic over time). There should be some benefit from LAMP Phase 1a in 2015 (similar to Gatwick); beyond 2019 there will also be major benefits from LAMP Phase 2 and the SESAR Pilot Common Project (PCP). There should also be some encouragement for NATS to support Airports, at no additional cost, to introduce A-CDM and continue with other initiatives such as the Transport System Catapult Project, linked to FAS, to introduce DPI (Departure Planning Information) Messaging to further reduce delay.
- The capacity target at Manchester is reasonable when our expected increase in traffic and extended opening hours of Runway 2 are factored in.
- In terms of the **cost efficiency target**, again we believe this could be a little more challenging. We are concerned that the target may not provide strong enough encouragement to NATS to engage in contract negotiations. As we pointed out in our earlier submission, a business that has been operating without regulation for a considerable period of time in a market that is not contestable is likely to have accumulated significant inefficiencies and failed to have kept pace with market norms. Therefore we believe there is scope for further efficiencies.

If you have any queries or if there is anything you would like to discuss further please do not hesitate to get in touch.

Yours sincerely

Tim Hawkins
CORPORATE AFFAIRS DIRECTOR