



24/09/2014

Mr. Stephen Gifford

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Sent by email: NATSoceanic@caa.co.uk

Ref: NERL Oceanic Charges: Proposal for a charge cap – 2015-2019

Dear Mr. Gifford,

Thank you for providing IATA the opportunity to respond to the CAA's oceanic charges proposal 2015-19.

We note the proposed changes to oceanic charges and have provided our response to the consultation questions at **Annex A**. Additionally, we have identified specific areas we would like to emphasize for the CAA to consider in its final decision making.

In relation to the alignment of the existing price control period with calendar years, IATA supports the approach. However, we cannot support the rationale to not adjust for the transitional benefit to NERL of GBP0.8m. We consider this as a quasi-traffic risk sharing mechanism without basis and request that this be neutralised.

The planned amendment of RPI-Z to CPI-Z* is duly noted. In particular, IATA requests that maintenance of the same level of CPI-Z* be a transitional approach applied not beyond 2015 and that the CAA adopts the same methodology as applied to the RP2 Plan.

IATA requests further clarification of the exact basis on which the traffic forecast is taken from the February 2014 STATFOR forecast and the annual STATFOR IFR Flight forecast for the North-West Europe to North America traffic flow 2014-2020.

Finally, in relation to pensions, IATA reiterates the views expressed by the airline community for RP2; we should only pay a pension rate that is in line with the commercial benchmarks and to that end we propose that the CAA implement a reduced pass through contribution rate.

I trust that you will consider these matters and our responses to the consultation questions useful inputs to finalizing the oceanic charges proposal for 2015-19.

Yours sincerely,

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Annex A

3.21 Is it appropriate to continue to regulate Oceanic charges so long as that control is simple and easy to administer? If not, why not?

IATA considers it essential that oceanic charges continue to be subject to economic regulation. In particular, we consider this necessary due to the strong market power in the oceanic business.

3.22 Do you agree with the proposed form of regulation for Oceanic services? Mindful of the degree of market power, do you consider a different regulatory approach would be more proportionate given the scale of the business? If so, what would that approach comprise?

IATA supports price cap regulation. In particular we note the relative ease of administration.

3.23 Should the timeframe for an Oceanic charge control be aligned with the timeframe for the RP2 controls for Eurocontrol and terminal services? If not, why not?

IATA supports the alignment for oceanic charges with the timeframe for RP2 controls both for en route and terminal services. We consider such alignment facilitates transparency and comparability.

3.24 Should the basis of indexation of charges be changed from RPI to CPI (subject to the value of X in a CPI-X charge cap being expected to generate the same amount as the value of Z in an RPI-Z cap)?

IATA notes the change in the basis of indexation and acknowledges that CPI is commonly considered as a method of accounting for inflation effectively. Considering the strong market power in oceanic services as well as the pressure on costs in the industry, we urge the CAA to review the level of X towards a level that directly reflects current economic conditions.

3.25 Is the approach proposed by the CAA to revise the Oceanic charge cap where the conditions set out in paragraphs 3.16-3.20 apply acceptable? If not, why not?

IATA notes the approach on dealing with a technology shift during the control period and considers that the required flexibility is available, but certainly rejects the notion of “trade-offs” between air navigation services costs and benefits. Any plans for technological improvements must be based on a sound cost-benefit-analysis and accompanied by customer consultation endorsing the change.

4.32 Is it reasonable to apply assumptions consistent with those adopted in the UK-Ireland FAB Performance Plan for NERL’s Eurocontrol business? If not, why not?

In general, IATA welcomes alignment of planning, between the oceanic and SES regulated services. For the avoidance of doubt, we reiterate our RP2 airline community comments in relation to the planning assumptions for operational expenses and cost of capital.

4.33 Do you have any comments on the building block assumptions described in paragraphs 4.12-4.28 above?

With regards to the traffic assumptions laid out in paragraph 4.12, IATA supports the use of the most recent forecast, but requests additional transparency of the figures presented. It is unclear



where the numbers presented in Figure 4.3 are derived as is the presentation of data in financial years.

Additionally, it is not evident how the data presented in Figure 4.4 of paragraph 4.13 has been generated and why this revised forecast is considered for adoption.

IATA acknowledges the removal of opex contingency costs as described in paragraph 4.16.

Pension rates in line with the commercial benchmarks should be applied to both the oceanic and SES services. To that end we propose that the CAA implement a reduced pass through contribution rate.

4.34 Is it reasonable to apply profiling to arrive at a simple CPI-X charge control? If not, why not?

With the data provided, it is not possible to follow up on the calculations presented in paragraph 4.31. Hence, IATA requests further information on this topic.