Airlines UK Seminar
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[slide 2] Thank you. I'm sure all of you will have some idea about what the CAA does – safety, airspace, economic regulation, airline and tour operator licensing, consumer rights. But I want to focus today on something we don't do. Now that's not a pitch for more powers but a pointer to where some industry self-help might generate useful dividends.

[slide 3] Airports and airspace in the UK cope with more traffic volume than almost anywhere else in the world: Heathrow is the busiest twin runway airport, despite its movement cap meaning that it hasn't grown much in terms of flights for over 10 years – in fact in 2016 it still hadn't quite reached its 2007 peak number of air transport movements, even though passengers have risen by 8 million over the same period up to 76 million. Gatwick is the busiest single runway airport in the world and has increased both passengers, which also grew by 8 million since 2007 to 43 million last year, and flights which increased by 18 thousand to 277 thousand over the same period. At the other London airports, passengers are also higher and flights about the same than they were in 2007, which makes the London Terminal Manoeuvring Area one of busiest pieces of airspace anywhere.

[slide 4] However, for London airports in particular, passengers often experience high levels of delay and once a problem has occurred, it can be difficult to recover from it until the day is over. Whilst Heathrow has kept delays pretty much constant over the last five years, the three other large London airports have seen deteriorations in the service they offer

consumers. This picture is despite these airports, their airlines and air traffic control working hard to find new ways to be more efficient, to deal with the bottlenecks and implement new processes and technologies. There are always pressures for such efficiencies to be used to increase throughput and of course slot regulations mean that this is very much a one way street – once slots are issued and used, they will be difficult to ever take back again.

Capacity is a difficult concept to pin down even at airports let alone in airspace. The DfT and the Airports Commission have used estimates of runway capacity in their traffic forecasting so those are a good place to start. Taking these capacity values for the four main London airports and comparing them to the actual number of movements over the last five years, we have gone from 81% utilisation to 94%. Maybe it isn't surprising that over this period we have seen punctuality fall.

[slide 5] Even though some of the problems which have affected the on time performance of UK airports recently are beyond their control – for instance, we have seen increasing delays arising from problems with European airspace – when league tables for delay make the news, UK airports are regularly amongst world's worst performers. This example for 2015 from flightstats shows that density of services in, around and overflying the UK as well as the relative lack of 'green' around our airports. You can see that we are not as bad as China, although that country has had to cope with some exceptional rates of growth and particularly restructure control of airspace.

The CAA's most recent consumer tracker survey indicates that passengers' overall satisfaction with their most recent travel experience remains high, at nearly 90 per cent. However, around 16% of those

interviewed had experienced a delayed flight and only around a third of them were satisfied with the way it was dealt with. We know from previous work on consumer priorities that passengers put a high value on punctuality.

The outlook for improvement at our most congested airports does not look good. Traffic forecasts suggest rising passenger demand over the next eight to ten years, the period from now until the Government expects new runway capacity in the South East to be opened. And of course there will, we hope, continue to be strong growth beyond Heathrow. In normal circumstances, we might expect market forces to solve such issues for us; after all, the UK relies on having a highly liberalised and competitive approach to aviation, which has worked well in producing good outcomes for passengers.

However, the key players in the South East are a mix of regulated monopolies, such as Heathrow Airport and NATS, and competing markets like the airlines and to a limited degree, tower air traffic control. The interactions between these businesses are complex and their various incentives are not obviously aligned to the consumer interest. As capacity constraints bite, it is increasingly likely that markets will find it harder to work normally, or at least will work much more slowly: for example, airlines' grandfather rights on slots make it harder for new carriers to enter the market and as demand increases, the price at which slots change hands on the secondary market can only go up. Add to that mix the reality that decisions around Airport expansion and airspace redesign are inherently political, contentious and consequently slow, and an approach that relies solely on expansion to solve todays congestion seems to me to be a 'bury our head in the sand' solution.

These are not new problems. Seven years ago, the South East Airports Taskforce was set up with a central focus and I quote "on developing proposals to improve punctuality, increase resilience and reduce delay, particularly at Heathrow." The Taskforce's final report, published in 2011, said "there is real scope to deliver benefits in terms of better resilience, fewer unscheduled night flights, reduced emissions and less stacking". On the issues of Punctuality, Delay and Resilience, it had three main recommendations.

[Slide 6] The first was for 'a set of operational freedoms to be applied to prevent or mitigate disruption and facilitate recovery' at Heathrow. Ambitious plans soon fell at the hurdle of local consultation and a sensitivity not to stoke resistance at a time when the way forward on runway expansion was far from clear. In 2013, the interim report of the Davies Commission recommended implementation of some of these measures alongside other ambitions to improve resilience. But the absence of any mature mechanisms and long term perspective on which to build effective community engagement limited progress.

Other resilience measures such as time based separation, the implementation of A-CDM and a process for pro-actively cancelling flights when we know that weather or other reasons mean that the full schedule cannot be flown have contributed to stabilising the impact of disruption at Heathrow.

The second SEAT recommendation was for a performance charter specific to and developed by each airport taking into account local factors and agreed by all of its stakeholders. The charter would give assurance that the schedule was robust and achievable, allow the plan to be adapted to account for anticipated operational conditions, and

ensure that all stakeholders pull in the same direction. No airport has successfully implemented performance charters in this way, but there is evidence of more collaborative working between airports and airlines, although these relationships can become rockier if and when performance levels slip.

The third and final recommendation was the formulation of a set of policy guidelines on capacity management covering, for example, the criteria to be applied during the capacity declaration process and slot efficiency. Again, this recommendation has come to a lot and, whilst the largest airports have put some effort into improving the modelling and analysis which underlies their capacity declarations, there is no set of standards or guidelines to which they should adhere. In fact, since the technical work is now done by private businesses, there is very little in the public domain about capacity declaration that isn't over 20 years old. As more airports fill up and need to become more sophisticated in their declaration processes, this lack of knowledge could present a risk to consumers.

So, is there anything that the CAA can do about this situation? Well, without the willingness of the industry, not much. Our powers are defined in legislation and, outside of reacting to safety risks, are mainly restricted to those entities which we economically regulate – currently only Heathrow, Gatwick and NATS en route services. Fortunately we are finding that the industry is also realising that something must be done. The global recession and subsequent reduction in air traffic demand bought us around seven years' grace over and above the risks that the South East Airports Taskforce envisaged. That grace period has come to an end and so won't see us through to the point where new runway capacity is available – and even if it did, that capacity itself will

only delay for a short while the time when resilience issues will need to be tackled, and will itself require some of the airspace and operational changes which SEAT recommended.

Maybe because of recent difficulties that have affected consumers or maybe because of the work that they know they are having to put in to protect consumers, there has been a mood shift from some in industry that things cannot go on like this. With the encouragement of the CAA, a Voluntary Industry Resilience Group has been set up to examine what can be done. A working group consisting of senior operational representatives from NATS, ACL, Heathrow, Gatwick, MAG, BA, easyJet, Virgin, Ryanair and the CAA is spending seven months considering what can best be done – by industry, the regulator or the Government – to address some of the most pressing problems of resilience. The working group has an independent lead in Garry Copeland, whom I'm sure many of you will know, someone with extensive experience in aviation operations both in the airport sector and at a very senior level at BA.

The group has set itself the purpose of identifying and developing a package of short and longer term changes to the way in which the aviation system is planned and operated as a whole and that are not otherwise being addressed by individual airports, their airlines, NERL, ACL, or the Future Airspace Strategy. It will give consideration to the following themes, in order to provide overall system benefits: **[slide 7]**

- A realistic plan –capacity declaration, slot allocation, operational scheduling and airspace planning aligned to improve levels of system-wide efficiency and resilience.

- Flying to plan, in particular for airlines and groundhandlers – incentivising all operators in the industry are incentivised to operate in line with the plan that has been set, and not place a short term parochial advantage over the efficiency of the network.

- Serving to plan, in particular for the infrastructure operators – ensuring that the operation of the network incentivises adherence to the plan and encourages the most efficient responses from all actors to recover from any disruption.

- Policing the plan – ensuring that any behaviours which drive inefficiency or decreased resilience into the system can be identified and remedial action taken to address them.

This work will focus on the aviation network in the South East of England, where day to day resilience issues are most acute. But it could also highlight those changes that are necessary to and would also benefit the whole of the UK.

It is intended that the package should be designed to be coherent, robust, evidence based and prioritised. In the first instance, the working group will report to an Oversight Board of CEO and COO level representatives chaired by me. Neither the working group nor the oversight board have powers to implement the package of measures, but will make recommendations to Government (potentially including proposals for changes to legislation), the regulator, the slot coordinator, air traffic service providers, airport, airlines or others as appropriate. This is not a government imitative or a regulator driving the approval. It

is genuinely an industry led attempt to test the industry's own appetite to learn and improve.

Can we learn anything from other countries or other sectors? Maybe, and the Industry group will be working to do so. However, most other countries do not have the same level of intensively used airspace as the UK, and some have different rules and regulations to cope. In the US, for example, slot rules are not so constraining as in the EU slot regulation or the UK's implementation of it. However, many US airports can also operate under visual flights rules more often which allows greater throughput of traffic, although it can lead to delays when weather conditions mean they have to switch to instrument flight rules. What of other sectors? In the UK rail sector, there is greater coordination of scarce line capacity by the network manager, although the rail operators are all UK companies unlike the airlines using UK airports, of whom there are a much greater number than their rail equivalents.

At the same time, we expect the Government to begin consulting on its Aviation Strategy over the next 18 months.   Although covering many different aspects of the aviation industry, we hope that this strategy review will give the Government the opportunity to look at those aspects of law and regulation which could be amended to give better outcomes for resilience.

In particular, we would hope that they look at the processes for permitting subsequent runway developments, how to modernise our airspace architecture, and a future vision for airspace management. Also with Brexit negotiations ongoing, the new strategy could review whether there is any opportunities to benefit resilience arising from no

longer having to be subject to European laws – such as the slot regulation – or the way in which it is currently implemented in the UK.

The timing of the Government strategy review fits in very well with that of the Industry Resilience group, whose recommendations will be produced before the DfT has finished all of its planned consultations. We shouldn't assume that the group will want any, never mind the all the action from the Government though.

If some tweak of the laws or regulations is felt to be needed, then the views of the Industry Resilience group will be a very powerful one. It is independent of any one sector of the industry, highly knowledgeable and we expect it to give good justifications for its proposals. Indeed, any solutions are likely to impose some costs - financial or otherwise - somewhere in the industry, so is all the better that they are being recommended by a group representing all the major types of business.

The Industry Resilience group is due to report its findings by end of year, at which point the CAA, Government and industry will need to give serious consideration to its recommendations.