HOUSE OF COMMONS

Transport Committee

Oral evidence: NATS, HC 256

Tuesday 17 June 2014

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Watch the meeting

Members present: Mrs Louise Ellman (Chair), Jim Dobbin, Jim Fitzpatrick, Jason McCartney, Chloe Smith, Graham Stringer, Martin Vickers

Questions 1-76

Examination of Witnesses

Witnesses: **Richard Deakin**, Chief Executive Officer, **Catherine Mason**, Managing Director, Services, and **Martin Rolfe**, Managing Director, Operations, NATS, gave evidence.

Q1 Chair: Good afternoon and welcome to the Transport Select Committee. Would you give your names and positions, please?

Richard Deakin: I am Richard Deakin. I am the chief executive of NATS.

Catherine Mason: I am Catherine Mason, managing director NSL.

Martin Rolfe: I am Martin Rolfe, managing director of NERL.

Q2 Chair: I would like to start by asking you about en route air traffic control services. Could you give us an idea of the extent of your responsibility for airspace across and around the UK?

Richard Deakin: From a NATS point of view the regulated side of the business is responsible for the en route air navigation service provision for all of the UK and the eastern side of the North Atlantic. In addition, we operate the terminal air navigation services—the tower services at 15 airports in the UK.

Q3 Chair: What is the importance of the efficient management of UK airspace?

Richard Deakin: Airspace is something that can be considered as part of the invisible infrastructure of the UK transport network. Managing it effectively and efficiently is as important as managing the tangible side of the transport infrastructure in the UK. NATS does a lot of work to ensure that aircraft flying in UK airspace take the most efficient and direct routes, minimising the impact on

the environment. From an airport point of view we also do a lot of work to ensure that the ground operations, which can also be very complex, are very efficient, to ensure that aircraft arrive and depart on time and that they burn as little fuel as possible on the ground.

Q4 Chair: Can you separate the importance of management of airspace for airlines and for airports?

Richard Deakin: It is very much an integrated challenge for us. One can look at it as managing an efficient system. You have the airspace which connects the airports together, both in the UK and further afield, and having efficient airports effectively at the end of each of those parts of the network is also important. Changing part of the airspace will have an impact on the airports and vice versa. Trying to balance all those different elements to optimise the network is something that we continuously strive to achieve, especially with the forecast growth that we are likely to see in the years ahead.

Q5 Chair: Are you allowed to charge enough for your services to recognise the value of what you provide?

Richard Deakin: We take a lot of time to consult our customers about the value we provide them. If I look back over the work we did last summer, Martin and his team spent four months consulting with the airlines on a range of parameters: potential delays, capacity and how we manage the airspace. The airlines worked with us to choose the best formula out of a number of scenarios to deliver what was important to them. It is a very open and consultative process, and we very much work with the customers to ensure that they choose what is important for them and their operations.

Q6 Jim Fitzpatrick: I want to seek clarification about the various roles of the airports, the airlines, the CAA and yourselves. Speaking as a London MP, noise is the biggest issue, as well as the height and age of aircraft. The corridor space where aircraft come in, particularly to Heathrow, is quite wide and is at varying heights. Who determines the right flight path? Do the CAA tell you? Is it a negotiation between the CAA and the airlines? Do you have some influence over what the flight path is on the way in? What is NATS' role in that aspect of the business?

Martin Rolfe: There are quite a few questions there. I will try to break it down a little bit. We obviously operate under a set of regulations. Those regulations start at the EASA level—the European Aviation Safety Agency—and they define some of the parameters we work under. Those are then interpreted locally by the CAA. Things like separation standards might be ICAO standards. Generally we operate separation standards of either five nautical miles and 1,000 feet separation between aircraft, or three nautical miles in terminal manoeuvring areas. The area you have described would be more like a three-mile separation standard, because the aircraft are moving more slowly and making more turns.

In terms of whether the airlines decide or we decide, the routes that lead into airports, and indeed away from them, are defined in collaboration with the airports. Effectively, below 4,000 feet it is the responsibility of the airport; between 4,000 and 7,000 feet it is in conjunction with NATS—the airport and NATS together; and above 7,000 feet, it is NATS. All of those go through public consultations and then have to be approved by the CAA under the licence that we operate under. The airlines then put in the flight path that they would like to follow and we endeavour to allow them to do that. That flight path obviously has to match the rules and regulations that have been set up. Does that answer your question?

Q7 Jim Fitzpatrick: That is helpful. Therefore, on the width and height of the corridor of approach or departure, the element of discretion is down to the airline. There is quite a degree of difference.

Martin Rolfe: It is a combination. Generally the airlines would file an approach; effectively, they file a fix that means they approach Heathrow, Gatwick or wherever. Our controllers might tactically vector them to make sure they can get the best landing sequence and make the most efficient use of the airspace. It is a combination of the flight paths that the aircraft have filed, the weather conditions and the tactical situation at the time as to where they actually fly over the ground. That can vary on a daily basis. Wind, thunderstorms and so on will vary that.

Q8 Jim Fitzpatrick: We know that aircraft have got a lot quieter and a lot cleaner over recent decades. On the discretion as to how high an aircraft approaches Heathrow, if it is a 380, which is one of the quietest aircraft, it could be lower and the public on the ground would notice it less than an older aircraft. Who makes the decision on the height of approach?

Martin Rolfe: The height of approach is largely set out by the type and operating procedures of the aircraft, and obviously in conjunction with the CAA in terms of what is allowable from a safe operating procedure. You are absolutely right that a 380 will be much quieter than an older aircraft. In fact, all modern aircraft are much quieter.

In terms of the standard operating procedures, it will be a combination of the airport requirements, the airspace requirements and the standard operating procedures of the aircraft. In general, I would say that most aircraft fly a fairly similar profile into Heathrow, or into any of the other airports for that matter; City is the obvious distinction because of some of the surrounding buildings.

Q9 Chair: How does en route air traffic control affect the growth of aviation?

Richard Deakin: From NATS' point of view, our challenge under our licence is to provide the capacity that airlines require. I am pleased to say that after five years of downturn we now see UK traffic beginning to pick up. It is up about 2.2% compared with last year, with particularly strong traffic in the North Atlantic. The challenge we have is to keep up with the demand for our services, to ensure that we have minimum delays and that we provide the capacity that customers need. It is very much a matter of looking ahead and planning ahead and ensuring that even with traffic increasing we provide a safe service and deliver the efficiencies that the airlines need as well.

Q10 Chair: Are you ever in a situation where you tell customers that you cannot provide that capacity?

Martin Rolfe: There are times. If you imagine the ski season early in the year, in the February school half-term, you will find that on Saturday and Sunday there is huge demand for aircraft travelling to and from France and the various ski resorts. There will be circumstances where the airspace is effectively full under current operating parameters. We would then offer the airlines the opportunity to re-route or we might delay them, depending on the nature of the demand. Airspace is finite, so obviously there are times when it is effectively full.

Some of the work we are doing with the future airspace strategy is to look at how we use the more modern navigation techniques on the aircraft to implement more up-to-date rules around separation standards and so on. There are moves afoot to allow us to increase that capacity, but, yes, there are times when capacity is constrained.

Q11 Chair: How do you separate the two parts of your business: the en route business and air traffic control?

Richard Deakin: We have two very distinct models. On the en route side obviously we have the regulator licence; Martin is the managing director of the regulated side of the business. On NATS services side, which is the unregulated side, Catherine has recently joined us as the managing director for the commercial side of the business. They are two very distinct businesses, but

obviously it is important for us to collaborate between the two to maximise the efficiency of the services we provide.

Q12 Chair: How do you do that? What are the connections? Do you have common staff in any of the areas?

Richard Deakin: We don't have common staff. There is some inter-company trading. We have some very clearly defined rules, and, effectively, audits are carried out to ensure that we have our trading at arm's length between the two parts of the business. It is important that both sides collaborate, but we have clear rules around the collaboration.

Q13 Jason McCartney: It is often said that UK airspace is the most congested in the world. Having been a fighter controller in the Royal Air Force trying to do intercepts of Tornado F2s over the North sea, I can totally agree with that. I am a big advocate of our regional airports, so I am interested in knowing which towers you operate in the rest of the UK.

Catherine Mason: This is going to be my test of memory. We operate 14 towers. We have Glasgow, Edinburgh, Manchester, Birmingham, Bristol, Cardiff, Stansted, Luton—

Jason McCartney: We are ticking them off as you go.

Catherine Mason: Yes, I know.

Q14 Jason McCartney: Leeds?

Catherine Mason: Leeds Bradford is not one of ours, no. That is your local one, isn't it?

Q15 Jason McCartney: Yes. You have done your research.

Catherine Mason: Manchester would be reasonably close by.

Q16 Jason McCartney: Who operates the others? Who operates Leeds Bradford, for example?

Catherine Mason: In terms of other towers in the UK—there are 106 airfields around the UK—the majority of them will be operated in-house, and the other two suppliers in the UK would be Serco and Peel Holdings.

Q17 Jason McCartney: Are any of the current contracts you mentioned up for renewal?

Catherine Mason: They are always up for renewal.

Q18 Jason McCartney: Soon? What is your position with getting those contracts renewed?

Catherine Mason: We have contracts that renew over a variety of different time frames. We renewed some last year. We renewed Cardiff, Belfast and Luton last year. We will have contracts that come up now. Gatwick is finished for March 2015, for instance. There is a whole chunk in spring 2018 as well. With that many, there are always contracts coming up for renewal.

Q19 Jason McCartney: It is a tough financial position for a lot of our regional airports. They are looking for good value services. What can you offer in terms of driving down the cost—low-cost or very efficient services? How important is that to regional airports?

Catherine Mason: It is very important. Over the last few years it is clear that the marketplace has got a lot tighter. Airlines are not making a lot of money. They are putting a lot of pressure on

airports and airports are putting a lot of pressure on supply of ATC. We are feeling that. I missed out Southampton, which is a small one but not geographically all that close to you.

We continuously look at ways of improving our efficiency. We have been improving our efficiency and productivity on the ATC side of things, which is why we have been reasonably successful in terms of contract renewal. If you know somebody at Leeds Bradford who you think I need to go and talk to, I would be more than happy to have that conversation.

Q20 Jason McCartney: I regularly speak to John Parkin there. Are you looking to drive down costs, and to do it for a lower cost this year than you were five years ago, for example?

Catherine Mason: The answer to that is categorically yes. We are always looking for efficiency or productivity.

Q21 Jason McCartney: Where are you primarily making those efficiencies?

Catherine Mason: It is a combination of different things. It will be in new ways of doing things, new procedures and new technologies. You will be able to catch me out completely here, knowing much more about the detail than I do on the basis of your history and background, but we have been looking at things like radar in the tower. There is a lot of technology. We will look at things like remote towers and the way we deal with technology. I will look to my much more technology savvy colleagues to the left to see if they would like to add anything to that answer.

Richard Deakin: Could I mention the general situation in the UK? Unlike a lot of our European colleagues, all of the airports in the UK are privatised. You are talking about our rising to the challenges of becoming more efficient, which of course is very much a feature of a competitive market. The UK market is extremely competitive, and we have to work very hard with all the contracts on contract renewal.

One of our frustrations is that it is not really a level playing field from a European point of view. We can effectively have foreign Governments coming into the UK to bid for airports in the UK whilst, from our point of view, we are not able to bid for towers overseas. I would love to have the opportunity to bid for more towers around Europe. There has been some liberalisation of the market. Spain recently—

Q22 Jason McCartney: You already have a partnership in Spain.

Richard Deakin: We do, with Ferrovial. That is a particularly interesting example, because we bid against seven other international consortiums to win the contract to provide services for nine towers at medium-sized airports in Spain.

Q23 Jason McCartney: Why do you think you won that bid?

Richard Deakin: It was a combination of our technical ability and price. There is a split of 60:40 on that assessment, but we were particularly pleased to beat some very tough competition, and we are now providing that service for half the price that the Spanish Government were paying before. We would very much like to have that opportunity elsewhere in Europe, and to have a similar go at improving the efficiency of services in other large towers. Unfortunately, we are not afforded that opportunity.

Q24 Jason McCartney: Are there any particular markets in the world that you would like to get into? Which markets have you particularly identified for growth?

Richard Deakin: I would be happy to start with continental Europe, but I will defer to my colleagues.

Q25 Chair: On that topic, do you feel vulnerable, in the sense that other European companies can bid to take over some of your services but you can't do it?

Richard Deakin: Yes, I think that is a fair comment. Of course, NATS is unlike any other air navigation service provider in Europe in that we are fully privatised. Where other air navigation service providers that are Government-owned are bidding for contracts in the UK, of course there is not the same imperative for them to do it on a commercial basis. It can be pretty tough and, we think, pretty unfair at times, yes.

Q26 Chair: Will the proposed new European Sky project SES2+ make that worse?

Richard Deakin: I do not think it will make it worse; SES2+ is really about driving efficiency through other air navigation service providers in Europe. There is a debate behind the scenes, if you like, about what is more effective for driving that. Is it around competition or regulation? I have to say that from NATS' experience we would say that competition wins every time, but of course not all air navigation service providers are set up like that.

Martin Rolfe: I would agree. SES2+ perhaps removes a few more of the barriers to liberalisation in Europe, but I don't think it in any way forces anyone to embrace liberalisation in any form. In many cases there are not a great many barriers; it is just that most of our continental European neighbours choose not to compete for those services. Essentially, it is self-provision.

Q27 Chair: Are you involved in any of the current discussions on SES2+?

Richard Deakin: Yes, very much so. This is all about the future of driving Europe forward. I have to say that from our point of view a lot of the things that SES2 would like to achieve, in terms of making it more efficient and more connected, are things that we would very much embrace. If I look at the next regulatory period, which starts at the beginning of next year, we have been working very hard to build those efficiencies into what we are going to be delivering during that time. To give you one figure, we are looking to reduce our prices to customers in real terms by around 20% during that time, which I have to say is by far the best figure compared with any other European air navigation service provider.

Q28 Chair: How do you maintain safety when you are looking at being profitable at the same time as being subject to competition?

Martin Rolfe: I will start with the en route side and then maybe Catherine can answer on the airport side. The way we structured our consultation, which was a very straightforward conversation with the airlines, was that we start from the position of being safe and then everything else that we look at around price reduction, capacity, delay and fuel efficiency is traded off against them on the assumption that we absolutely have to be safe. The way the system works, and the way we operate, is that, if demand becomes too high or if the routes aren't available, we sacrifice capacity to ensure that we maintain safety. We never ever compromise safety just to try to be more cost-efficient or to increase capacity. Effectively, we built a model from the bottom up that prioritised safety, and then we looked at where we could be more efficient. We looked at systemisation of the airspace whereby a controller can deal with more traffic, or can pre-plan more routes so that there are fewer conflicts to deal with and fewer aircraft moving in the same space. We have a number of different tools that we have used, or will use over the course of the next reference period, to maintain safety. In fact, our plan anticipates us improving safety by a further 13% over the course of the next reference period. That is on an improvement of 40% over the last reference period. In the last four years, running up to the end of this year, there will be a 40% improvement on the number and severity of safety significant events. We will be up in the 50% to 53% range by the end of the decade.

Q29 Chair: Prospect trade union have made representations to us, and they consider that safety could be jeopardised by the proposals in SES2+, particularly in relation to separating safety-critical support services from air traffic control. Are they right to be concerned?

Martin Rolfe: We are always looking at all of this legislation with an eye to safety, as you would expect. We have made it clear that we feel there are boundaries whereby it is important for us as an ANSP to maintain certain infrastructures or certain procedures or processes within our own boundaries to make sure that we can oversee that they are safe enough. The piece they are probably referring to is the enforced separation, which we and the DFT have been very clear that we don't support across Europe. It was effectively enforced separation of certain pieces of air traffic provision either to a central body such as Eurocontrol or outsourced. We are looking at those with significant interest, and making sure that we don't compromise safety in any way on them.

Q30 Chair: Are you saying that those proposals are not actually going to happen?

Martin Rolfe: Maybe we could follow up with a written answer on that. I seem to recall that the wording has been amended in the last couple of months to take out the enforced separation of services. I would need to double-check that.

Chair: It would be helpful if you could send us some information on that.

Q31 Jim Dobbin: I have to declare a special interest in this next question, even though I am an English MP. On 18 September, there will be a referendum in Scotland. Have you held discussions with the CAA, the Government or the Scottish Government about air traffic control if there is a yes vote?

Richard Deakin: Our position on that at the moment is really referring back to the Scottish Government's White Paper, where their statement is that they would negotiate with the Westminster Government about taking a share in NATS, based on the UK Government's 49% stake in the company. It is fair to say that we have not looked in any detail at what the implications would be from that point of view. We are waiting to see how 18 September pans out.

Jim Dobbin: You must be confident that there is going to be a no vote.

Q32 Chair: Do you have an overseas growth strategy?

Richard Deakin: Yes, we do. I am going to ask my colleague, Catherine, to comment on that, if I may.

Catherine Mason: It also leads on from Jason's question earlier. We have looked globally and have been successful in achieving business in a number of countries since PPP, and recently. In terms of our priorities we are looking at places where we can really add value. We have a very good reputation in terms of air traffic control, and we also have some real skills from our experience with both Heathrow, as the busiest dual runway airport in the world, and Gatwick as the busiest single runway airport in the world. We are well recognised; therefore, we believe that our skills can be best used in our focus areas, which are the middle east and Asia-Pac—places where air traffic is growing very substantially and pacily. That leads to a lot of the issues that frankly we have already had to face in the United Kingdom, in terms of congestion in airspace, airspace design, corporatisation, delivery and development of air navigation services. We have a focus, and have now opened up offices in both the middle east and Singapore with a view to showing our commitment and delivering growth and development in those two key geographies in the first instance.

Q33 Chair: Will that expansion of overseas work affect what you are doing in the UK?

Catherine Mason: The answer is absolutely, but probably not in the way that you might have been asking me that question. What we see is a real benefit in terms of our global aspirations and the view that we take around the world, which helps us in terms of seeing what is going on elsewhere and bringing best practice back here as well. Does it in any way compromise the services that we provide for towers in the United Kingdom and the focus that we have on that? No. But does it enhance our ability to continue to develop in the United Kingdom? In that case, the answer would be yes.

Q34 Graham Stringer: During the debate on the privatisation of NATS the argument was that the private sector would be more efficient than the public sector. You have mentioned competition and efficiency a number of times. Can you put numbers on that? In the 12 or 13 years since you have been privatised, how much have you saved the taxpayer and can you justify that figure?

Richard Deakin: I will take one of the key measures—the direct operating cost. Since privatisation, we have improved our direct operating cost, reducing it by 33%. There is a further 21% reduction in price coming up over the next five years. At the time of privatisation there was quite a lot of debate around safety and whether a privatised company could run the airspace as safely as a publicly owned one. Again, our safety record has been particularly strong during that time. In terms of the average delay per flight, which is a very standard measure that all air navigation service providers are measured against in Europe, our average delay per flight at privatisation was around 120 seconds; last year it was around five seconds per flight, which is four times better than the European average. I think it has been a pretty good story over that time.

Q35 Graham Stringer: Generally, do you get tensions between the airlines who part-own NATS, because they have interests? In 2010, when we had the volcanic eruption the airlines were openly and vociferously arguing with the CAA that the airspace should be opened quicker than it was. Were there tensions within NATS then, and more generally are there tensions within NATS?

Richard Deakin: No. From the shareholder point of view, they absolutely recognise the need to let the operational team, on both the airport and the airspace side, get on and run the business from a day-to-day point of view. I would not say there was any undue pressure there. Clearly during the volcanic crisis, which I remember well as it was my second week in the job, we worked very hard to try to keep as much of the airspace open as possible, based on the CAA guidelines of ash density. Yes, there were some lively debates with airlines, but from a NATS point of view we were quite capable of working out what was safe and what wasn't and sticking to that.

Q36 Graham Stringer: Did you make representations to the CAA, following those discussions, about whether airspace should be opened or not?

Richard Deakin: It was very much a joined-up effort during that time. We were in constant contact with each other. Andrew Haines, chief executive of the CAA, and I spoke regularly, probably every few hours, in terms of looking at the unfolding situation. It was very much a joined-up approach.

Q37 Graham Stringer: So you did make representations.

Richard Deakin: I think it was ongoing dialogue rather than representations, if I could put it in those terms.

Q38 Graham Stringer: Going back to the first point—the fact that you were talking to airlines who are also part-owners of you—do you think that changed the discussions or representations you made?

Richard Deakin: No, I don't. Obviously, operationally, we kept the board and the shareholders informed, but from our point of view one of the key aspects of our licence is to provide the same service to all the airlines that use UK airspace, whether they are shareholders or not.

Q39 Graham Stringer: Do you monitor near misses?

Richard Deakin: We do.

Q40 Graham Stringer: Have there been any near misses over London in the last fortnight?

Richard Deakin: No, not that I am aware of.

Martin Rolfe: We have to be a little bit careful about terminology in terms of near misses. Losses of separation are what we measure, and loss of separation is obviously have we infringed the distance that aircraft are supposed to stay apart? The answer to your question is that over the last two weeks I don't believe there have been any losses of separation.

Q41 Graham Stringer: It is a bit of an odd question, but I was having a beer between six and seven o'clock last Monday on the terrace, and I saw two aeroplanes very close to each other and one veered off. I realise that at a distance you don't necessarily get the perspective, but it looked like a near miss to me.

Martin Rolfe: Generally, when they look close together they are separated by 1,000 feet vertically, and that is extremely difficult to tell from the ground.

Q42 Graham Stringer: They were close—like this—and I have never seen that over the Thames before.

Martin Rolfe: Certainly if there was one like that I would have heard about it, so I can categorically state that there wasn't one.

Graham Stringer: So we can be assured that there wasn't going to be a crash over central London.

Q43 Jim Fitzpatrick: As a follow-up, in terms of loss of separation do you grade the loss—from just a minor infringement?

Martin Rolfe: Yes.

Q44 Jim Fitzpatrick: How do you do that?

Martin Rolfe: It is based on distance. The rules will change under the European Commission. There will be new rules and that will change at the end of the year. At the moment, we use a safety significant event index, which effectively gives A, B, C and D scorings for how close they are—whether it is half a separation, two thirds, three quarters and so on. There is also a score of 1 to 4—1 being that there were no safety barriers left and 4 that there were still lots of safety barriers left that would stop aircraft from actually ever getting too close together. We always aim for there never to be any SSE1s and we do very well on that.

Q45 Jim Fitzpatrick: On the basis of A to D and 1 to 4, there are 16 different gradients.

Martin Rolfe: Yes.

Q46 Jim Fitzpatrick: Is A the least significant?

Martin Rolfe: A is the most significant. 1A says it was very close and it was luck; 4D would say they were just slightly too close together, and there were many ways in which the pilots at the controls would have known it.

Q47 Jim Fitzpatrick: Are these publicly reported, reported to the CAA or are they on your website?

Martin Rolfe: We report them to the CAA every quarter and then we summarise it every year. Any that are considered to be air proxes can be filed by pilots or controllers. They don't have to be losses of separation but any events that pilots or controllers feel were in any way potentially unsafe. They get reported as air proxes and go to the Airprox Board, which is a separate independent body.

Q48 Jim Fitzpatrick: Graham, we are going to be sitting on the terrace going, "That was a D4."

Martin Rolfe: I think you can report it to the Airprox Board if you want to.

Jim Fitzpatrick: Thank you very much. That was very helpful.

Q49 Chair: I want to ask you one or two questions about your work with the Airports Commission. Were you satisfied about the way in which the Airports Commission used the information and assessments you gave them when they produced their report?

Richard Deakin: Yes. We have been working with the Airports Commission since the outset to look at some of the impacts of additional runways in the various options. You will recall that initially there were around 50 separate proposals, and we did some initial scoping work around that. Of course it is now rather more focused, with three particular options. We are looking in more detail at the potential impact of those three separate options, not only at the airport from a local point of view but also in terms of the network impact and capacity from the south-east point of view. It is early days yet and we are doing some scoping. I am sure that as time moves forward we will be looking in more detail in terms of some of the modelling associated with each of those options.

Q50 Chair: We have some conflicting information. The commission and Transport for London have expressed conflicting views on the question of whether London City airport would need to close for operational reasons if a new airport was to be built in the Thames estuary. Both of them quote you in their support. Who is right?

Martin Rolfe: The challenge with the estuary airport is obviously that it is still relatively undefined in terms of its operating procedures. It is fair to say that a four-runway airport effectively to the east of London relatively close to London City would no doubt have an effect on the operation of City. At this stage it is too early to state categorically whether or not it would force any closure, and clearly it is not our position to determine whether closure would be required or not. We can talk about the effect it would have on the network, and about the volume of traffic that City might be able to handle under some of those operating parameters, when we understand them, if the estuary airport is shortlisted for phase 2. At this point, we are just flagging up that clearly there would be an impact under the circumstances.

Q51 Chair: Do you think that the Airports Commission went further than that in using your assessment?

Martin Rolfe: No; I think they stated it pretty accurately around the fact that there would be significant impacts of an estuary airport on neighbouring airports, including London City. It is reasonably accurate.

Richard Deakin: The Airports Commission also commented on the economic impact. From our point of view, we have just been commenting on the airspace impact.

Q52 Chair: They did, but I am asking you about the airspace issues and the operational impact. You are not uncomfortable in any way with statements that came from the commission in relation to which airports it was possible to expand and which should be ruled out.

Richard Deakin: The commission used our approach in terms of their overall summing-up, and the statements we made have been that airports would be impacted by the varying options, but we have not determined whether or not there would be a hugely significant impact. We are currently doing modelling around that. Whether or not airports would be impacted to a degree that would make them economically unviable is not something that we have commented on. That is obviously very much something for each of the airports to look at.

Q53 Chair: You are comfortable with the way in which the commission used the assessments you gave.

Richard Deakin: Yes. The commission has a job to take into account all of the different aspects—the economics, the ground transportation and the access side.

Q54 Chair: But in relation to airspace you are comfortable.

Richard Deakin: In relation to airspace, we certainly feel that they are taking into account all the input that we have given them, yes.

Q55 Chair: And you are comfortable with their assessments in relation to airspace.

Richard Deakin: Yes, in relation to airspace they have a good understanding of the issues involved. We wrote to Sir Howard in February with a list of proposed questions for him to explore for each of those options. We are now working with the commission and those option owners to look at the airspace issues in more detail. Certainly that will be taken into account by the commission in their summing-up and conclusions.

Q56 Chair: Are you doing the recommended fast-time simulation work?

Martin Rolfe: We will be doing that. It will start later in the year, once phase 2 starts. When the decision has been made as to whether or not an estuary airport joins the current three shortlisted ones, we will start doing the fast-time simulations.

Q57 Chair: If somebody made an allegation that the commission attributed statements to you that you did not in fact make, would you disagree?

Richard Deakin: Did you have any particular statements in mind?

Chair: No, I am just thinking possibilities.

Richard Deakin: If the commission made statements attributing them to NATS and they were not statements we had made, I am sure we would want to take that up with them.

Q58 Chair: In relation to sustainability, what is NATS doing to reduce the impact of aircraft on the environment and on those living under flight paths? These are major issues. What can you do to help?

Richard Deakin: Perhaps I can make a brief comment, and then ask my two colleagues to comment in regard to their own particular areas. It is worth saying that the environmental side is very much at the fore of NATS' agenda. I think we are the only air navigation service provider that has an environmental measure as part of our regulation. I am sure that Martin will want to talk about that in more detail.

NATS can have a huge and positive impact in helping to meet UK carbon targets. It is worth while mentioning just one airspace figure, which is our target to reduce the CO_2 emitted by flights in UK airspace by 10% between 2003 and 2020. By the end of this year we will have reduced CO_2 emissions in UK airspace by 4%. We are aiming for 10% by 2020, even with the likely increase in traffic that we have planned during that time. Martin might want to comment on the regulated side and then Catherine on the operational side.

Martin Rolfe: As Richard rightly said, we are incentivised and penalised if we don't achieve savings in CO_2 for individual aircraft. We are the first ANSP in the world to do this, and we do it using a model that we call 3Di; it takes a perfect flight path for an aircraft through our airspace from start to finish and then measures how we do against that. Effectively, if we have moved it off course or made it climb or descend, we get a score for that, and that score relates to how inefficient that flight was. Up to now we have saved about 1.3 million tonnes of CO_2 since 2006. By the end of the next reference period, by 2020, we will be saving about an additional 800,000 tonnes of CO_2 per year for UK aviation. Obviously not only is that a benefit to the environment, it is also a huge benefit to the airlines because they are more fuel-efficient routes. Some of the ways we are doing that are through better flight planning—some of the departure enhancements that we are doing as part of the future airspace strategy. There is an awful lot going on around sustainability, fuel efficiency and reducing CO_2 emissions; in fact, I would say it is probably one of our biggest initiatives. Delays are now close to zero, so it is probably our biggest initiative after making sure that things stay safe.

Q59 Jim Fitzpatrick: Is there a conflict between noise and emissions? You are clearly indicating that there are criteria and penalties and so on. Does the same apply to noise or is that on an entirely different scale?

Martin Rolfe: I am thinking a little bit off the top of my head here, but largely a more efficient route would be better from a noise perspective. Continuous descent and continuous climbs, which are better from a noise perspective, are also more efficient from a fuel perspective. The efficiency of the routes allows us potentially to follow areas where we can concentrate noise in less developed areas. Sometimes that might be in conflict in terms of track miles flown, but, largely, improved efficiency means improved noise.

Q60 Chair: Do air traffic controllers across the EU have similar targets?

Martin Rolfe: Not exactly. We have the toughest target, and the only financially incentivised one. We will be incentivised plus or minus 1% of revenue on our environment target. If we extraordinarily beat it we can gain 1% of revenue in bonus. If we fail to meet it we can lose 1%. The rest of the European Union ANSPs have no financial penalties associated with it. They only measure half of the efficiency; they measure the efficiency in terms of whether the aircraft have flown extra distance. What they don't measure is the vertical efficiency, which is probably the bigger part, because aircraft climbing and descending is the most fuel-efficient piece. Again, we are at the forefront of the Commission's thinking in that regard.

Q61 Chair: How far do you need the support of airports and airlines in your sustainability measures? Are there any problems there?

Richard Deakin: We work very closely with all of our customers; obviously the airports are customers from our point of view. They have similar environmental targets. Delivering efficient operations at airports absolutely helps them to meet their targets as well. As I said earlier, it is very much a network challenge, but we are very focused on that customer approach and working with them too.

Q62 Chair: What more do you think you can do to reduce noise for people living under flight paths?

Martin Rolfe: The biggest one is probably the introduction of performance-based navigation standards, which is something the CAA is strongly proposing and advocating under the future airspace strategy. That essentially allows us to use the onboard navigation systems of the aircraft, which are phenomenally accurate compared with what they were 20 or 30 years ago. The airspace has never really caught up. It was designed 40 years ago and it has been adjusted, but it is largely still the same. By effectively utilising performance-based navigation, we can very accurately create arrival and departure routes for airports, which concentrate the noise, as per Government policy, over less populated areas.

At the moment we are doing a number of trials to demonstrate to ourselves and to the safety regulator just how accurate the performance is of the track keeping of the aircraft and that the aircraft know where they are over the ground. It is within about the distance of their wingspan, so it is phenomenally accurate compared with what it was 15 or 20 years ago when they roughly knew where they were to within half a mile. That allows us to be very particular and to specify some very specific routes that avoid densely populated areas. It also allows us to specify more routes over the course of an area, which means that airports can also introduce respite routes. Effectively, they use one route at one part of the day and other routes at other parts of the day, thereby giving noise respite to the local residents.

Q63 Chair: Are there any rules or regulations that inhibit what you feel you could do in terms of improving efficiency or environmental benefits?

Martin Rolfe: There are obviously lots of rules around what we can and can't do, laid out by both the CAA and DFT. Most of those are in place for very sound reasons. Clearly there need to be some restrictions around how airports, aircraft and airlines operate. It is fair to say that in the future airspace strategy group—co-chaired by myself and the director of airspace policy at the CAA, and which is an industry-wide collaboration with airlines, airports, the regulator and so on—we have a pretty good handle on all of the things that need to be done, and I think we are getting excellent collaboration across the patch in terms of making sure that where there are either unnecessary rules or rules inhibiting efficiency they are being challenged appropriately. I do not think there are any that I would say are effectively stopping us progressing. There is a real sense of urgency around the implementation of FAS.

Q64 Chair: Finally I want to go back to SES2 as proposed. Do you agree with concerns that it could lead to both an increase in delays to air travel and reduced investment in technology, possibly requiring cuts in air control staff numbers?

Richard Deakin: There are a number of points. There is one around efficiency and one around cuts in staff numbers, and perhaps we need to separate the two. SES2 is very much focused on driving forward efficiency. For most customers that means reduction in price and delays, and maintaining and improving safety and so on.

In terms of reduced numbers of jobs, yes, potentially that will be an outcome of that journey. Of course air navigation service providers are investing a huge amount of money. We have just spent £510 million over the past four years and we are spending another £575 million over the next five years. That is all effectively investment in the latest generation of technology. From a NATS point of view, we have been on a steady journey to reduce costs. That of course takes into account our direct operating costs and people, so we are going through a redundancy programme this year.

From a European point of view I think that is probably one of the key challenges. We have managed to develop a very good relationship with the unions; from a UK point of view I think the last strike was back in the early 1980s. We have a very engaged and consultative process of dialogue with unions in the UK. In continental Europe it is not quite such a happy story. There are quite a lot of strikes and quite a lot of concern about going on the journey that NATS has already embarked on. We have already closed centres in the UK. We are now down to two—one in Prestwick and one in Swanwick. There are other countries in Europe that, for example, have five centres. They have some way to go before customers start to see some of the efficiencies that they would like. I come back to my earlier comment about competing for business in Europe; we are keen to do that based on the journey that we have been on and the efficiencies that customers enjoy in the UK.

Q65 Jason McCartney: One of the areas where you can work on efficiencies and cost savings is salaries and staff costs. How many air traffic controllers do you have with a salary in excess of £100,000 a year?

Martin Rolfe: I cannot answer that off the top of my head. We probably have about 1,800 controllers in total. I would say that a very small proportion of those earn over £100,000, but I will have to follow up with the answer to that.

Q66 Jason McCartney: Do you have any idea what the median salary is?

Martin Rolfe: This was published the other day. The median salary is in the range of £70,000. I want to say £75,000 or something like that, but I would have to check.

Q67 Jason McCartney: At Stansted or Heathrow would you have a dozen or maybe a couple of dozen air traffic controllers who would be earning in excess of £100,000?

Catherine Mason: I don't know. No.

Martin Rolfe: No, not that many. To get to that level you would have to be right at the top of the top grade of controllers. There are relatively few.

Q68 Jason McCartney: In terms of expanding into European markets, you talked about your operation in Spain. We often hear that Spanish air traffic controllers are going on strike. Is the UK leading the way with air traffic controllers' salaries? Would that be one of the big issues for you in expanding into new markets? I fully appreciate that it is a highly skilled job and they are top performers and deserve to be well rewarded, but is there a disparity between UK salaries and Spanish or mainland European salaries?

Martin Rolfe: They are certainly lower. UK air traffic controller salaries are certainly lower than the Spanish, the Germans and the French. I cannot remember which others.

Richard Deakin: It is worth mentioning a couple of other points. UK employment costs have traditionally been driven by quite expensive pension costs. We closed our defined benefit scheme back in 2009. Over time, as more and more people come on to the DC scheme—the defined contribution scheme—our overall employment costs will reduce. Our colleagues in Europe are largely on defined benefit schemes. In Spain, where we have made some positive impacts, we have

recruited new controllers on new terms and conditions to enable us to deliver the savings that I mentioned earlier.

Q69 Jason McCartney: Would an air traffic controller in Spain working for you be on the same salary pay scales in Spain?

Richard Deakin: No.

Q70 Jason McCartney: Is it more or less than the UK equivalent?

Richard Deakin: Less.

Q71 Jason McCartney: Less in Spain?

Richard Deakin: Yes.

Catherine Mason: We tend to employ people in local markets on local terms. Inevitably it is a highly skilled job, as you so rightly noted. Consequently, it needs to be in that highly skilled environment in terms of pay, but we would pay according to market norms. That would be the same for other people that we employ in other countries as well. It would be aligned to the local marketplace.

Q72 Jason McCartney: I have just been looking at some statistics on your retention. How is that going at the moment—retaining your experienced air traffic controllers?

Martin Rolfe: We have pretty low attrition rates. I would say they are less than 2%, so we do pretty well. As Richard said earlier, we have been going through a voluntary redundancy programme this year so we will see a few leaving, but largely most of the controllers we have stay for their whole career. It is pretty rare that they leave, particularly on the regulated side. There is a little more on the airport side because there are more options, but on the regulated side it is pretty rare for people to leave.

Q73 Jason McCartney: Are you recruiting at the moment?

Catherine Mason: At this time, no, we are not recruiting on the airport side.

Martin Rolfe: We are recruiting a little on the regulatory side—I think 30 ATCOs this year so far.

Q74 Chair: Are there any ongoing discussions with Government or with Europe about your position in relation to the rest of Europe in terms of regulation, new programmes or your status as a private sector company?

Richard Deakin: Yes. The main discussions at the moment are around the next period of regulation, which is from the beginning of next year for five years ending at the end of 2019. As I said earlier, NATS is a slightly different animal compared with the rest of Europe in that we are privatised. It is fair to say that our perception is that the Commission sometimes struggles to look at like for like for a privatised company compared with a Government-run company. Even within the general description of Government-run companies, they are all run very differently and get their revenues from different sources, so it is quite a challenge to compare like for like. In terms of the competitive landscape side of things, my understanding is that the DFT is quite sympathetic to that position. I hope there are going to be some discussions during the Italian presidency around the competition issue. The DFT are keen to have that discussion.

Q75 Chair: The DFT are aware of your concerns.
Richard Deakin: Yes, they are.

Q76 Chair: Do you feel that they are active in pursuing them?
Richard Deakin: Yes, absolutely. It is fair to say from a NATS point of view that the DFT are great ambassadors for us in Europe. They obviously act as our regulator, but they also need to look after the UK interest. It is worth mentioning that on the commercial side in our overseas expansion we are now in 36 countries outside the UK. We have had a huge amount of help from UKTI and the embassies around the world to advance our position. It has been very effective teamwork over the past few years.

Chair: Thank you very much.