

Ms Judith Ross
NATS/CAA Regulatory Appeal
Competition & Markets Authority
The Cabot
25 Cabot Square
London E14 4QZ

14 January 2020

By post & email to: nats.caa@cma.gov.uk

Dear Ms Ross,

Airlines UK is the trade association for UK airlines. Our members are British Airways, CargoLogicAir, DHL, easyJet, Flybe, Jet2.com, Jota Aviation, Norwegian Air UK, Ryanair, TUI Airways, Titan Airways, Virgin Atlantic, West Atlantic and 2Excel.

Airlines UK welcomes the opportunity to submit our views on the NATS/CAA Regulatory Appeal. It is right that the CAA seeks to ensure that NERL delivers its operations as efficiently as possible and in the interests of service users, not least for airlines where operating costs are high and margins are low. The CAA's role as economic regulator has never been more important. Within Europe, aviation markets are challenging and are likely to remain so in the face of weak economic growth, currency fluctuations and higher fuel prices. Breakeven load factors are higher in Europe than any other region in the world, and UK carriers face a cost base that hampers their ability to serve new destinations viably. Consequently, the CAA's role as the economic regulator of NERL - a monopoly provider of air traffic services - is an essential one.

We understand that the CAA has set a price cap for NERL RP3 (2020-2024) lower than that requested by NATS. Regarding cost of capital, the source of the largest differential between the CAA's determination and NERL's request, UK carriers are supportive of the CAA's RP3 cost of capital determination. We assess that the cost of capital proposed by NERL is higher than can be justified by the available evidence, and that on market returns the CAA is correct to put no weight on regulatory precedent. We agree it is important to reassess this aspect in the face of an emerging consensus that previous determinations have been too high, and a credible assessment that NERL faces average risk compared to the wider market.

On operational expenditure, we believe that the efficiency challenge put to NERL is moderate and achievable, and that rather than a reduction in operational expenditure, the CAA has provided a 15% increase compared to the 2017 baseline. All capital and operational expenditure related to airspace modernisation has been protected and ring fenced. Consequently, we believe that NERL would have the appropriate resource to undertake its essential functions, and deliver critical airspace modernisation.

Finally, we understand that the CMA's determination will set a precedent on the CAA's upcoming H7 determination, making an appropriate and fair determination in this case essential given the scale of that project and the longstanding concern that this scheme must be delivered in a cost-effective way and without burdensome costs for airlines.

Yours sincerely,



Tim Alderslade
Chief Executive