

**UK Aviation Club  
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My thanks to the Aviation Club for inviting me today – delighted to have the opportunity to bring you up to date with a whirlwind year as CEO of NATS ... When I accepted your invitation last year, I didn't expect to have quite so much to talk to you about!

...potential Government sale of the company .... a challenging payround.... A decade of PPP.... major developments in Single European Sky .... Government policy consultation – and oh yes, several volcanoes! So why don't I start at the beginning.

I was in my second week at NATS when the unpronounceable happened! I'd just moved my family home from France and literally left my wife with the removal van as I said "Darling... I'm going out for a while – I may be some time..."

The volcano last April was a pretty quick way to come up to speed on how NATS operated and our responsibilities within the overall civil aviation framework within the UK.

I did my 100-day contact plan in 48 hours, and did my media training in week three with Jeremy Paxman on Newsnight. So yes, you could say it was a baptism of fire!

We took a lot of flak from the airlines for our caution last year – they were frustrated that they had no role in decisions about whether it was or wasn't safe to fly. It's gratifying that our caution has since been endorsed by the Icelandic National Academy of Sciences, whose report earlier this year concluded that the density and composition of the ash would have been damaging to jet engines (it didn't come as a surprise given the dozen or so emergency and precautionary landings by GA and military aircraft that flew through the ash). But it was hard at the time and the team at NATS rose to the occasion brilliantly to keep airlines and in fact the flying public as well informed as we could.

Our website took a staggering 5 million hits per week. We did something like 125 broadcast interviews and handled upwards of 3,000 media calls.

Of course it triggered a huge “lessons learned” process within the aviation community. There has been a vast amount of work at a UK and international level over the past year, both in terms of simplifying the procedures for operators in UK airspace, and ensuring there is a more consistent and joined up approach across Europe in particular – where we saw a number of different approaches during last year’s eruption.

The key change in place by the time Grimsvotn went off in May this year, was that airlines are now required to provide a safety case based on manufacturers’ advice on safe ash tolerance levels.

Airlines must be able to demonstrate they have procedures in place to understand the extent of the ash, the effect on their operation, and flight planning. We will then clear aircraft to fly through ash if the operator requests it, as we are allowed to assume they have the appropriate safety case.

This means our ATC role is to manage safely, the unusual traffic flows arising from operators’ decisions. That will provide the flexibility that airlines asked for at the time and put the onus on the airlines for safe operations, rather than on the regulator to put a blanket ban on certain areas.

In May, the airlines made their own decisions about whether or not to operate. Our role was much more one of coordination and information to ensure everyone was well placed to make the decisions they needed to. There is still work to be done, particularly at European level, but I think the industry was much better placed to deal with this latest eruption.

## **Who is NATS?**

Perhaps I should pause here and just check that everyone knows NATS and what we do. We are the UK’s major provider of air traffic control.

NATS alone looks after 11% of Europe’s airspace and 25% of its traffic – and together with our Irish partners in the UK/Ireland FAB, we’re Europe’s main US gateway.

Last year we handled about 2.1 million flights. That’s about 6,000 flights a day. We manage the busiest and most complex airspace in the world (in the London area) from Europe’s biggest ATC centre at Swanwick in Hampshire. We also have one of Europe’s newest ATC centres – at Prestwick in Ayrshire, opened last year by Princess Anne.

We also manage the tower control at 15 of the UK's major airports – including the world's busiest single and 2-runway airports at Gatwick and Heathrow. And we market our skills and expertise worldwide with contracts in the middle east, China, and India, along with ambitious plans for growth.

Just a word, perhaps about the big piece in last week's Times saying that 60% of Heathrow arrivals join a stack which adds up to something like 50 hours of stacking per day.

Averaged across the whole Heathrow operation, the stacking time per flight at Heathrow in 2010 was 4.4 minutes, which doesn't sound quite so bad, does it....

Stacking, though, is a symptom not a cause of very busy airports. With current technology it is an incredibly efficient means of ensuring we have a constant supply of aircraft feeding in to make the absolute most of precious runway slots. The advent of SESAR will give us the tools to refine arrivals management and significantly reduce holding at Heathrow.

And when I **say** busy, at Heathrow I **mean** busy... it is operating at 98% of capacity (that's about 1350 movements per day) and we need to recognise the constraints that brings with it.

I should emphasise that we take the environmental consequences of our operation very seriously. NATS was the first ATC company in the world to set an environmental target to reduce the emissions of aircraft we control by 10% by 2020 (that's against a 2006 baseline) which would remove 2.6m tonnes of CO2 from the air even with the forecast increase in air traffic over that period.

In the past year we have helped airlines achieve fuel savings of about £7.5m. A "win-win" for the environment and airline operating costs.

## **PPP**

This year we're celebrating the tenth anniversary of the Public Private Partnership. It's been an interesting journey since we became the first ATC provider in Europe to be privatised.

NATS has performed exceptionally since the PPP. In the ten years since the PPP we have turned an £80m loss into a £106m profit, invested more than £1 billion in new technology and infrastructure, and reduced the cost base of our regulated business by a third.

You may remember scare stories at the time that safety would take a back seat if ATC was privatised. There was never any chance of that happening. No business compromises its core business.

Our core business ***IS and always will be safety***, (whoever our new shareholders may be) and we have demonstrated that commercial drivers can sit comfortably alongside.

We have improved safety – there have been no significant NATS-attributable airprox for the last three years – and reduced NATS-attributable delay from almost 2 **minutes** per flight in 2002 to just 4.3 **seconds** over the past two years.

Yes, traffic is down around 2.6% on last year - but last time traffic was at these levels was in 2004, when our average delay per flight was almost 41 seconds. This year – *I like repeating this one!* – it was just 4.3 – or in operational terms that's about 20 times less than the European average! Or as my FD likes to point out...

Given Eurocontrol estimates that a minute's delay is worth around 70-80 euros, that means we have effectively helped the airlines avoid delay related costs of well over £100m a year.

Our success has been predicated on a number of factors – strong leadership; unremitting focus on safety; a partnership approach to delivering high quality service and to developments in Europe; robust financing arrangements and sustained investment in technology; and constructive industrial relations.

NATS is a world leader in air traffic control, and a UK success story – delivering major infrastructure projects at no cost to the public purse.

## **Sale**

So in case you didn't recognise the sales pitch..... this is a company in pretty good shape for sale!

It is only yesterday that the Government's Call for Evidence closed and we'll wait with interest to see the kind of feedback they have received.

I do know that they will be receiving a number of submissions from NATS – from our shareholders... the Airline Group, BAA, the Government's Partnership directors and our Employee Share Trust. And there will be one from the management team, too.

I've made no secret that if there is a further sale, I would like employees to be allowed greater access to share ownership. Our staff currently own 5% through a share trust which gives individuals a stake of up to around £8,000 in the company if they've been in since the beginning. A greater share will give our people a more meaningful stake in the Company and signal greater confidence in, and commitment to, its future success. There is a lot more discussion to come around how that might be achieved.

Our relationship with the Government will always be crucial no matter what the level of its stake in the company. We're not afraid of them selling off a bit more of us – but I believe it will continue to be important for the Government to be a visible part of our Board.

So much of what we do is in partnership with the European ATM industry – which is still exclusively state owned. In the ten years since the PPP we have won supporters among the EU institutions and other ATC providers from an initial position of suspicion and scepticism of a PPP, to a position of trust and respect.

European credentials are an essential item on the list of factors which will achieve greater co-operation – if we're to achieve the pan-European safety, value and service improvements promised by the Single European Sky.

I believe it would be a significant challenge to continue operating with the same status with European partners unless the Government retained a meaningful minimal presence ... and made that intention clear.

## **SES, FABs & SESAR**

The Single European Sky is now within reach. We are starting to see it geographically with the emergence of Functional Airspace Blocks and wider operational alliances. And we are now seeing real progress technologically through the SESAR programme.

Whether it's addressing FAB development or technology sharing principles among the main ANSP technology purchasers in Europe, NATS has worked hard to gain acceptance and credibility as a key influencer in Europe.

We were the first to establish a working FAB with our Irish neighbours in 2008. We have already delivered 20 distinct projects and are on course to deliver some 50,000 tonnes of CO2 savings over the next five years, worth around €41 million in fuel costs – three times more than targeted.

Now we're looking beyond the FAB structure to see how we can work more effectively on an operational basis with neighbouring FABs and the wider ATC community in northern Europe by creating an alliance of 9 Northern European Air Traffic partners to improve operational efficiencies.

We have also been instrumental in drawing together the leading members of the ATC community to ensure we have a proper share of the voice in SESAR and we have just signed a Memorandum of Cooperation with what we call the A6 – the six biggest ATC providers in Europe – to enable us to share and converge activities in the main areas that will make a difference – including R&D and most notably, accelerating the deployment of SESAR.

The A6 collaboration will provide the necessary drive and commitment to help change the shape of European aviation and deliver real benefits to our airline customers

Whilst implementation progress has probably been moving more slowly than we'd like, it's about to gather pace and the A6 can help to drive that. Events in Europe will present a significant challenge to us in the future. The European Union will dictate our future performance targets around safety, service and cost. Meeting these targets, as well as implementing new SESAR compliant systems to support the future growth in air traffic will require us to work much more closely with other European ATC providers, and build on the positive relationships we've already established.

## **Challenges**

Last week we announced strong results despite the continuing impact of the global recession. We have stripped away a large amount of cost. Yet still we are one of the most expensive ATC companies in Europe and our customers expect us to do something about that.

That will continue to be a challenge. We will maintain our focus on cost reduction but I think the main opportunities will come with the achievement of the Single European Sky which is why we are doing all we can to help drive that forward.

The time is now right for NATS to spread its wings and capitalise on its world class reputation. There are many opportunities for growth which we are only starting to tap into and it would be good to attract new investment and new capabilities to help us maximise our presence.

We have a clear growth strategy based on partnering to strengthen our position in key markets; and new and innovative products that provide real value to our customers.

We are already working in the Middle East and opening a US office to explore partnership opportunities – we already have partnership ventures in Europe such as FerroNATS, a JV we established with Ferroser to bid for airport tower operations in Spain. We've just heard that we have made it through the PQQ stage of the bid process, which is great news.

People know us for our ATC excellence but we have a lot of core skills – engineering, airport operations and flight planning, for instance and these are areas where we believe we have a lot to offer to the market.

To give you an example, we excel at data management and we are seeking to capitalise on that. Aeronautical information data, Airport Collaborative Decision Making, Dynamic Flight Planning are areas where we already have great potential. For now we intend to continue to focus on the aviation sector because that is also where we excel. Who knows what else the future may offer us.

As custodians of UK airspace – a cornerstone of our national transport infrastructure - we will be contributing to the Government's consultation on its aviation policy scoping document. Airspace plays a unique and often overlooked role in the industry's development. Airports don't work without the airspace to supply them and we believe the UK should maximise its existing airport infrastructure rather than build new airports.

We will continue to work on our environmental performance, Our customers are very clear about the importance of flight profiles which reduce fuel burn and emissions and we are developing with our Regulator a flight efficiency metric to incentivise our environmental performance from next year - the first such metric anywhere in the world.

Our latest forecasts indicate a 5% bounceback in traffic this calendar year. We have some exciting systems and tools planned to will help us deliver even better performance.

Of course we also have the London Olympics to look forward to next year. We have done a great deal of work to ensure that we can safely handle the expected influx of additional 5000 flights with minimum disruption to normal scheduled flights.

There will always be tensions between NATS and our customers because they live for the moment and we have to plan for the long term. That tension ensures that ultimately we achieve a good balance between customers' day to day operational needs and our long term investment requirements.

In conclusion, I can say hand on heart that I have enjoyed every manic moment of my first year in this job!!

By any standards, it's been an eventful year and there are more, very exciting times ahead. I cannot think of a more critical time to be leading this company and I feel very privileged to be doing so.

And let me be very clear. Whatever form our future shareholding may take, we are in great shape for the future. Make no mistake, NATS is a world class company with a world class future ahead.