

28th September 2012

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British Airways Plc
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Sent by email to barbara.peratasmith@caa.co.uk

Dear Barbara

Consultation on the process for developing economic regulation for RP2 under SES

British Airways ("BA") welcomes the opportunity to respond to this Civil Aviation Authority ("CAA") consultation, however we are minded to keep our response brief.

BA doesn't plan to use this response to the CAA's consultation to repeat the comments made by many airlines and our representative bodies in relation to the lack of success (from an airline community perspective) of both the Control Period 3 ("CP3") and Reference Period 1 ("RP1") regulatory processes. The letters from Matthew Baldwin (Director Air Transport Directorate, European Commission) received by many states, including the United Kingdom ("UK"), adequately demonstrates the failure of the process to deliver the step change in financial efficiency of the European air traffic management system.

One key contributory factor to the failure of the UK was the unfortunate disconnect between the CP3 and RP1 processes that led to cost efficiency targets being set for CP3 prior to the European Union-wide targets being published. The fact that the cost efficiency target set for NATS (En Route) Plc ("NERL") was significantly lower than the European Union-wide targets is well known and will cost the airline community and our customers dearly.

We are therefore looking to the CAA to work within the processes and timelines articulated by the Performance Review Body ("PRB") on behalf of the European Commission to ensure full alignment. The key aspect is that we believe that it is inappropriate for the process in the UK to lead the PRB process, thus risking a repeat of a damaging disconnect between cost efficiency targets in RP1.

The fact that the CAA has already instructed NERL to develop business plan scenarios based on cost efficiency targets of -2%, -3.5% and -5% is clearly of concern, as it starts to suggest the cost performance that NERL (and the UK Performance Plan in general) may be expected to deliver, even though we are still many months from the European Union-wide targets being published and these targets may be set at a higher level than -5%.

Another development that concerns the airline community is the concept of Total Economic Value, which if misapplied could lead to sub-optimal trade-offs between targets, rather than the delivery of a balanced portfolio of targets. Not only do such trade-offs risk under-performance in key categories, however, in

addition, they have the potential to create airline "winners" and "losers", potentially distorting competition in a competitive market.

We therefore urge the CAA to coordinate its processes for RP2 with the PRB to not only ensure alignment of process, but also of intent.

We look forward to receiving your response to this letter in due course.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Buss', with a stylized flourish at the end.

Tony Buss
Procurement Manager
Airports & ATC

cc Mike Goodliffe, Civil Aviation Authority
 Dave Wood, Operations, British Airways
 Peter Jukes, Operations, British Airways