



By email: kelly.tolhurst_mp@dft.gov.uk

Kelly Tolhurst MP
Parliamentary Under Secretary of State
Department for Transport

AG 2.3.1

6 May 2020

Dear Minister

NATS Holdings and NATS Limited - ownership

I wrote to you on 18 March concerning the future of the NATS En-route Limited (NERL) RP3 Price Determination in the light of the Covid-19 crisis. Since then, the UK government supported an agreement at European level aimed at assisting airlines' cash-flow by providing for the deferral of En-route charges, with payment of 50% of those charges by Eurocontrol this summer and their eventual recovery from the airlines later next year.

While this agreement was welcome in covering some of what has been an almost complete loss of income for NERL, it will not solve NERL's chronic loss of income going forward. There exists a traffic risk sharing mechanism that allows for a level of minimum funding paid for by the airlines, that operates on a N+2 basis, where N is any given year. However, it is unlikely that the airlines will be in a position to pay for this, and it will meet significant resistance, given that the airlines will not have used the services of NERL for a significant part of this year. NATS cannot be expected to operate as a commercial entity knowing that it will run at a significant loss for two years with little prospect of recovering those losses.

With the exception of Italy, all other European ANSPs are state entities. They know that they can run a deficit budget with the security of government support. Notwithstanding the government's golden share, NATS does not have this security.

Prospect has sought a commitment from the DfT that the government will be the funder of last resort for NATS – providing cover for the revenue gap it is experiencing so that it can continue to manage UK sovereign airspace and operational air traffic services to airlines and airports. We have pursued this in our regular weekly meetings with officials since mid-March. We have not received the assurance we seek.

Although no-one believes the government would allow airspace simply to close down, the reality is that it would be perfectly rational for the NATS Board to decide to take a commercial decision to wind-up the business – if not immediately, then when the aviation sector's recovery trajectory is better known and before NATS becomes insolvent.

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There are suggestions that the ownership model is an obstacle to NATS securing the support available to other large companies through the CCFF. Even if these obstacles are overcome, the CCFF will not provide a long-term, sustainable solution for NATS, especially if the lost revenues this year are not recovered through the Eurocontrol and traffic risk sharing mechanisms.

The only shareholders NATS can call on are the Airline Group and Heathrow Airport – neither are in a position to prioritise further investment in NATS.

The lack of access to emergency funding and the worsening medium-term revenue position brings into question NATS' ownership model.

NATS is key national infrastructure and direct government support is essential if the aviation industry is to be in a position to recover from the current crisis. If NATS is forced to restructure to survive in the short-term, there is a major risk that it will cut capacity to the extent that it is a hindrance to the recovery of the industry and the wider economy.

NATS' strategic position in the economy – and its safety-critical role – as well as the UK's responsibilities as an ICAO signatory state suggest an alternative ownership and governance model similar to Network Rail. The government could achieve this quickly by purchasing the Airline Group and HAL's shareholdings (perhaps providing them with a welcome cash injection at the same time). The NATS employees' holding should remain.

I hope you will look on this proposal favourably. I should point out that Prospect is not being opportunistic here – we dropped our policy to renationalise NATS some time ago and have actively supported the PPP's development and success over the years. But we see no other way of preventing the collapse of the company.

I look forward to your response.

Yours sincerely

A handwritten signature in black ink that reads "Steve Jary". The signature is written in a cursive style with a horizontal line underneath the name.

Steve Jary
National Secretary
Aviation, Defence & Security