AIRLINES UK
THE ASSOCIATION OF UK AIRLINES

# Airlines UK response to Initial Proposals for HAL's H7 price control and the associated incentive arrangements.

**December 2021**

Airlines UK is the trade association for UK airlines. Our members are 2Excel, AirTanker, British Airways, CargoLogicAir, Eastern Airways, easyJet, Jota Aviation, Jet2.com, Loganair, Ryanair, TUI Airways, Titan Airways, Virgin Atlantic and UPS.

Airlines UK endorses the detailed submissions and technical work presented by British Airways, Virgin Atlantic and IATA in response to this consultation, addressing the wider issues in the consultation relating to CAA's Initial Proposals for HAL's H7 price control and the associated incentive arrangements. This response does not seek to duplicate those submissions but rather to highlight our support, and to draw out some of the main points.

## UK airlines context – emerging recovery

As highlighted in our part 1 response, the pandemic has and continues to have a huge impact on UK airlines, most recently via the re-imposition of significant emergency measures restricting travel, including additional testing and self-isolation measures even for the fully vaccinated. These measures will impact UK airlines' ability to recover, and by being again more restrictive than competitor markets (the UK is the only major European market to currently require *both* pre-and post-arrival tests *even* for all fully vaccinated arrivals), we risk further eroding the UK's relative competitiveness as an aviation hub.

Nonetheless, it remains the case that UK aviation will play a critical role in the UK's wider economic recovery post-pandemic. It will do this by supporting both the Government's global Britain agenda by strengthening international business and trading links with the UK's new and emerging overseas markets, but also, by connecting the nations and regions of the UK to the world and to each other, helping 'level up' the country by opening up economic opportunities.

Why does the H7 process matter in this context? A competitive UK international hub at Heathrow is an essential part of this recovery picture, but risks being undermined if the airport becomes uncompetitive for UK airlines.  Today Heathrow is the most expensive airport in the world to operate from, and substantially more expensive than the next most expensive airport in Europe. The range of proposed increases for H7 between £24.50 – £34.40 equates to an increase of somewhere between 25% – 75% compared to today, which would make the UK even less competitive, and even more of an international outlier.

Consumers and UK businesses will be the ones who ultimately pay the price of a less competitive Heathrow, with connectivity and services at risk of migrating elsewhere to rival hubs and to overseas carriers.

**HAL's H7 price control**

- UK airlines did not support a RAB Adjustment and disagreed with the decision to award £300m made in May. We agree with the CAA that there are no grounds to award any further RAB adjustment, which would only benefit HAL's shareholders.
- We disagree with the CAA's analysis that prices should increase for H7 compared to 2021 charges. UK airlines believe that H7 should see an overall fall in the level of aeronautical charge compared to current levels. Analysis (from both CAA and the Airline Communities' independent consultants) supports a level significantly below the CAA's Initial Proposal.
- We are concerned the CAA's proposal stems from a failure to have sufficient regard to the robust analysis submitted by the CAA's own independent advisors on operating costs and commercial revenues. Specifically, we believe it would be more appropriate to select the CAA's advisors' mid-point, removing the CAA's use of upper and lower quartiles between their advisor's projections and the discredited numbers developed by Heathrow, which have been developed through an opaque econometric model that fails any tests of scrutiny. As per our initial consultation response, the CAA must follow the advice of its own independent consultants - it cannot give the same amount of credence to HAL's biased forecasts.
- The CAA's proposal is also based on outdated passenger forecasts which do not reflect latest industry analysis, including those published by Eurocontrol & IATA, and should not be used to determine the forecast for the H7 period. It works in HAL's favour to lean towards a more pessimistic forecast.
- The CAA substantially over-estimates the cost of capital at Heathrow (evidenced by the work undertaken on behalf of the airline community by CEPA[1]).
- The CAA approach also appears to have placed undue weight on short-term financeability considerations and tends towards HAL's position in asserting that consumers alone should bear the cost of Covid.

HAL owns a valuable asset and their choice to pay a dividend in 2020 indicates a substantial disregard for using equity to absorb risks, which they have continually attempted to offload onto consumers. We are concerned that CAA appears to want to introduce additional risk mitigations that protects HAL's shareholders, that could add hundreds of millions of pounds in costs for consumers through H7, but which are not necessary. For example, we note that HAL's Capital Plans have lacked the detail expected in order to fully progress an appropriate Capital Plan.

Overall, we share the view of others in the airline community that CAA should set of strong safeguards to ensure transparency from HAL around areas that directly affect airlines and consumers.

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