



7 December 2018

Richard Moriarty
Chief Executive
UK Civil Aviation Authority

Re: Airline Community feedback on the latest Heathrow Expansion developments.

Dear Richard,

We are writing on behalf of the Heathrow airline community to express our serious concerns regarding several aspects of the Expansion Programme during this crucial phase of masterplan development.

As you will be aware, the past few months have seen significant developments in the masterplan process, yet a number of worrying outcomes have arisen as well, particularly in relation to the overall costs. In parallel, the airlines have continued to engage in good faith; however, there has been an ongoing lack of clarity and responsiveness, culminating in such matters being escalated at both the Joint Expansion and Steering Boards.

Since then, we note and welcome that HAL has advised it is taking steps to address some of these aspects. However, given the likely irreversible nature of the next stage and critical timing, we wanted to articulate our concerns now and seek your continued support in ensuring this re-assessment meets and delivers on such expectations. In particular, our concerns centre around costs/scope, timescales and engagement.

As you know the airlines can only support expansion if it is affordable for consumers – defined as charges remaining flat in real terms. Affordability was also a requirement of the NPS and supported by the CAA and Government. HAL has said that they accept this affordability challenge, as evidenced by Lord Deighton's letter to the CAA in July 2018 and John Holland-Kaye's statements to the Transport Select Committee, where he claimed that significant cost reductions of £2.5bn could be achieved.

The latest versions of HAL's assembly options have seen capex costs rise substantially. As a result, HAL has communicated that it is re-working the strategic direction of certain aspects of the assembly options, notably in relation to capacity. With this in mind, it is vital that such a review includes the requirement for a masterplan design which meets the affordability criteria mentioned above, as well as delivering the scope and benefits necessary for the successful expansion of the airport. Setting off now with a strategic direction which does not have a clear path to an affordable outcome is not acceptable to the airlines or consumers.

Such concerns on costs are particularly heightened given the unexpected announcement of the significant uplift of Category B costs, to which we welcome the CAA's comments it will be reviewing, coupled with HAL's large capital costs overruns on several major projects within Q6, such as the Heathrow Tunnels refurbishment and Hold Baggage Screening machine replacement. Such evidence raises serious questions regarding HAL's cost control and efficiency and whether HAL will be able to deliver expansion for the cost they declare. If an affordable scheme is found it is imperative that the CAA puts in place controls to maintain affordability for the life of the programme.

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Whilst affordability has often focused on the airport charge, this cannot be traded off for costs elsewhere that consumers will ultimately bear. We have seen recent examples of proposed "stealth charges" directly passed onto passengers, for example, congestion or emissions charges. To be clear, the airlines view such charges as part of the affordability envelope.

The airlines also remain concerned about timescales. There is an awful lot still to do with limited time or clarity in HAL's schedule. The airlines recognise HAL is keen to progress and have demonstrated their willingness to work tirelessly with HAL to try to develop the right scheme in a timely manner. However, the airlines maintain their strong conviction that they will not be bounced into decisions where insufficient time or information has been given. We must take the right decision on behalf of our passengers.

By way of example, HAL has recently asked the airline community to approve early category C spending, despite failing to provide the overall strategy or business case long asked for by the airlines. As a result, the airlines reasonably feel they are not in a position to agree. The airline community is still willing to consider early category C spend but only if there is an agreed business case for such spend which is shown to be both robust to all possible DCO outcomes and is demonstrably in consumers' interest as indicated by the CAA.

Following NPS designation, the Secretary of State called for 'Enhanced Engagement' between HAL and the airlines. Engagement with the airline community has continued but the airlines have seen this as very patchy in terms of timeliness, responsiveness and effectiveness. HAL have started putting in some focus since the latest report to the Secretary of State, but there is still a long way to go for HAL to demonstrate it is actually listening and acting on feedback. HAL's response to feedback on the early 25k ATMs, and ensuring a robust business case which maintains, and enhances where necessary, an appropriate degree of resilience, will be an important indicator.

In addition, much greater efforts are required to fully address the Gateway process, particularly given a shift of position by HAL on information to be provided and the ongoing ambiguity around M5 / M5A. Whilst work is underway, we re-iterate that, as we move towards a preferred masterplan, it is unacceptable not to have a view on affordability throughout this stage in the process. Nor do we have yet the detailed engagement plan against which the airlines can effectively plan. Given the remit of Enhanced Engagement, we are sure HAL's response here will be of particular interest to you as well.

During this critical time, it is vital that the objective of a demonstrably affordable, fit for purpose scheme is addressed by HAL with the airlines, in a collaborative and timely manner which avoids challenges later in the process. We remain committed to working tirelessly and collaboratively with HAL, and note the recent steps taken to date; however, we re-iterate the right framework must be in place going forward.

We welcome the CAA's continued interest in and support on the issues outlined above.

In the interest of transparency, a copy of this letter is forwarded to HAL and the DfT.

Yours sincerely,

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