

Airlines UK response to Heathrow H7 Initial Proposals and 2022 Holding cap

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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, Norwegian Air UK, Ryanair, TUI Airways, Titan Airways and Virgin Atlantic.

Airlines UK endorses the detailed submissions and technical work presented by British Airways, Virgin Atlantic, and IATA in response to this initial consultation on matters relating to airport charges for 2022 and the introduction of a holding cap. We believe that the proposed cap has been set too high, and should be revised down taking into account several key data points, in particular:

- CAA's true baseline for HAL operating expenses & commercial revenues
- More accurate passenger numbers based upon Eurocontrol forecasts

If CAA follows its own independent assessment on Opex and Commercial Revenues, and then applies revised passenger numbers based upon independent forecasts, then we believe that **£19.39** becomes the appropriate mid-point for a 2022 cap.

UK airlines context – emerging recovery

As is recognised, the pandemic has had a huge impact on UK airlines, and whose effects are still being felt through the maintenance of health measures for international travel both at home and abroad, including testing requirements for all international arrivals into the UK. Nonetheless, following the substantial reopening of UK air travel supported by changes to UK travel rules this autumn, including the removal of all countries from the Red list, the introduction of cheaper lateral flow arrivals testing and the expansion of international vaccine recognition, we hope that we will have begun a period of sustained recovery and stability for UK airlines as we head into 2022, and the critical winter bookings period.

Aviation will, ultimately, play a critical role in the UK's wider economic recovery post-pandemic, 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, to help 'level up' the country by opening up economic opportunities.

A competitive UK international hub at Heathrow is an essential part of this picture, but is at risk if the airport becomes uncompetitive for UK airlines to operate from.

Holding cap proposals

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 proposed increase would make the UK even less competitive and even more of an outlier. We are very concerned that the CAA's

Initial Proposals to implement a £29.50 holding cap in 2022 - up 59% - would mean that a family of four flying long-haul from Heathrow will be required to pay an extra £100 in charges from next year, and is not justified by CAA's own analysis.

Specifically, the CAA's proposed range, and the £29.50 mid-point, is skewed towards HAL's RBP and does not reflect the current data on the speed of recovery at Heathrow in particular. It is an example of an airport taking advantage of its market power; and damaging recovery at the expense of consumers who, along with businesses, will be the ones who pay the price of a less competitive Heathrow, with connectivity and services at risk of migrating elsewhere to rival hubs and to overseas carriers.

We believe that the CAA's own analysis of operating costs and commercial revenues demonstrates that the range for Initial proposals could have been set lower, even at low passenger numbers and an elevated WACC. Using the CAA's own estimates and models of Opex and Commercial Revenues to recalculate the range in the Price Control Model, profiled with flat charges, gives a range for a cap of between £20 - £27; the highest range that can we think be justified based upon the CAA's own initial analysis.

However, the above range assumes a passenger forecast for the H7 period (and specifically 46M pax for 2022) that severely underestimates short term demand and the speed of the recovery. Data shows that Heathrow is a leading beneficiary of the emerging recovery, with demand increasing rapidly as travel restrictions have eased throughout the autumn, including with the reopening of the trans-Atlantic corridor. In reality, we have seen that HAL has achieved recent per passenger sales that match 2019 performance, and Heathrow's forecasting model should consequently be re-run on latest available information.

If CAA follows its own independent assessment on Opex and Commercial Revenues, and then applies revised passenger numbers based upon independent forecasts suggesting higher passenger volumes across H7 (e.g., 72M pax for 2022), then **£19.39** becomes the appropriate mid-point for a 2022 cap.

This is substantively the same level as today, and warrants consideration as to whether the best route forward would be to rollover current charges into 2022, or at the very least substantially revise down the level of 2022 cap to the lower, £19.39 level.

Movement charges

We also note that Heathrow is proposing to create a new "Super Low" noise category for which currently very few aircraft qualify (including the new generation of Airbus A321NEO and 737MAX aircraft).

The equivalent cheapest movement fee - £595.84 in the 2022 proposals - is only available to a very small number of aircraft. The charge in the Chapter 14 Low category would effectively double from £481.78 per movement to £961.29 per movement. For regional aircraft operating with lower seat counts, the cost per seat per movement will increase significantly (e.g., has gone from £9.83 to

£19.62 on the Embraer 145 or £6.69 to £13.35 on the ATR72-600 aircraft). The magnitude of the change poses a major challenge to the operating economics of particularly those aircraft types offering regional connectivity from Heathrow.

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