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Dear Paul,

CAP2265E Appendix C: Notice of Proposed Licence modification to insert a new price cap from 1 January 2022 to 31 December 2022

Thank you for the invitation to respond to the above consultation. Please find below Star Alliance's response to HAL's consultation on the above. This is written on behalf of Star Alliance Services GmbH and its 23 member airlines operating to LHR.

We have worked closely with other airlines through the LACC and AOC forums and have given significant input to the detailed community response which is being submitted. Rather than repeat those details here, we hereby state our full support for this submission and simply highlight below the summary points which are of most importance.

We firmly support the CAA in its proposed intervention through a licence condition to regulate HAL's prices in 2022. Without such an intervention, consumers would be left exposed to the commercial will of an entity recognised as having substantial market power.

Unfortunately, the level of the proposed price cap is far above what we should reasonably expect and must be reduced. At the proposed cap, HAL would be able to increase charges by >50% versus 2021. Already the most expensive hub airport in the world, the level of increase would exacerbate this already extreme position. Benefitting from the combined global reach of our member airlines, we can see that no other airport (despite being already cheaper than LHR) is being reported as raising its charges by this proportion.


We understand how the level of the proposed price cap has been derived and we believe that the range on which the H7 Initial Proposals (and therefore this 2022 price cap) are based is flawed. Once these flaws are investigated and resolved, a reasonable re-calculated mid-point of the H7 range is less than £20. The community response explains these calculations in detail.

At a summary level, these main flaws are as follows:

- The passenger forecast used is outdated and therefore unduly pessimistic. It is essential that this forecast is re-visited in developing the H7 Final Proposals. Much work has been done by the base carriers and IATA to objectively assess the passenger forecast. Feedback from our member airlines aligns with this assessment; that a realistic forecast for H7 shows higher volumes driven by a quicker recovery than previously predicted.
- As part of CE, we consulted at length with the CAA's advisors on OPEX and Commercial Revenues. It appears that the Initial Proposals did not fully take account of the results of this independent analysis. The outcome of adopting the advisors' recommendations would reduce HAL's costs and improve airport commercial revenues, therefore reducing the level of price cap required.
- As the other fundamental building block of the price control, the WACC range proposed in the Initial Proposals seems very high and this too has assisted in elevating the price range beyond what is reasonable. The community response to the full Initial Proposals consultation will explain this view in detail. In simple terms, the unreasonably high WACC would reward HAL's shareholders to the detriment of consumers.

Whilst we welcome the CAA's intention to set a licence condition to cap 2022 prices, we urge you to re-consider the level of this cap, and reasonably reduce it, using objective assessment.

Yours sincerely



cc: Simon Scoggins, Consultant to Star Alliance Services GmbH, Heathrow Programme Director
cc: Star Alliance member airlines, LHR