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By email to: economicregulation@caa.co.uk

Consultation: Economic regulation of Heathrow: programme update CAP 1914

Dear Economic Regulation Team,

I am authorised to submit the following comments to the above consultation on behalf of the Local Authorities' Aircraft Noise Council, an umbrella local authority organisation representing 16 local authorities and associates whose residents are adversely affected by noise from Heathrow Airport.

Reasons for Response

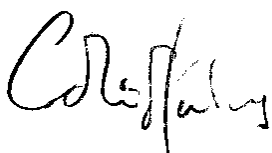
1. Although CAP 1914 states that it is assumed that the future operational basis of Heathrow will be as a two runway airport LAANC members are concerned that the consultation does not clearly indicate that this should be on the same basis as current – i.e. segregated mode with the Terminal 5 planning cap (480,000 atms) remaining intact. LAANC believes this the only operational scenario that should be considered by the CAA in regards to Heathrow Airport. Our reasons are set out below.
2. There appears to be a certain amount of prematurity in regard to this consultation in particular the option of accounting for Heathrow expansion through operation re start. The issues of uncertainty, as listed in the consultation report, impact on UK aviation as a whole, these are

not unique to Heathrow. Heathrow expansion via a third runway currently has no policy support unless the February 2020 Judgment of the Court of Appeal in respect of the ANPS should be overturned. Even in that case it will be for the Government to then decide afresh how to take forward any ensuing action in relation to Heathrow expansion. In this context we believe it is relevant that the only other existing airport policy paper "Making Best use of Existing Runways" specifically excludes Heathrow expansion.

3. As stated above, Heathrow air transport movements are currently capped at a maximum of 480kATMs delivered by the use of segregated mode (on grounds of mitigating the noise impact). LAANC does believe there is specific Government policy support for the introduction of mixed mode operations. As you will be aware Heathrow is currently operating using only one runway and in mixed mode under the current COVID 19 circumstances. LAANC members are concerned that there is no published exit strategy or criteria for when these arrangements must be re-visited and there appears to be no regulatory threshold to ensure reversion to segregated mode operations following a return of demand.
4. The loss of respite that can only be achieved with segregated mode operation would be unacceptable for the local communities affected and it is therefore vital that in the list of scenarios the CAA is seeking to consider in terms of recovery, the scenario to consider for Heathrow is the principle of a 2 runway airport capped at 480k ATMS operating in segregated mode only.
5. We note the CAA has hitherto supported Heathrow expansion in line with previous Government policy. However with the current policy vacuum regarding key issues such as shape and direction of UK aviation, future airline business models, climate change targets and the stated need for a rebalancing of the regions, the CAA should be engaging with Government to consider how best to regulate the UK airport system. This could include a move to a systems approach, looking to deliver and regulate across the London airports system as a whole. Such issues should be taken forward urgently. Whilst it may not be for the CAA to determine future Government Aviation policy it does have a role to play to advise and assist on civil aviation matters to meet the need of all users, having regard for national security, economic and environmental factors. Now is the time to do so.

6. Environmental Issues – Historically the CAA's Economic Regulation has been weak on **environmental issues**, despite the fact it is required to take them into account. In LAANCs view it needs to show leadership where the environment is concerned. It is accepted these are difficult times, but noise, air quality and carbon economics should not continue to take a back seat where aviation is concerned. There appears to be little or no reference to the environment in CAP 1914
7. The Government has already provided significant financial support to UK aviation during the Covid -19 crises and may have to do much more. The CAA is tasked with affordability (ticket prices) as well as the financial standing of the regulated airports and in our view it should ensure for the next period of regulation that Heathrow shareholders, in the main, carry the burden of on going financial distress due to Covid-19. The taxpayer should be bank of last resort and Taxpayer loans should be repaid on commercial terms over however long it takes. There should be a cap on Heathrow's debt. The treatment of any future government support, should it arise, needs to be considered in the formulation of economic regulation for the next period of price control.
8. Further we believe the CAA should be considering the UK airport market as a whole when setting prices. The CAA should reconsider the whole subject of **price elasticity** in a post Covid-19 world where demand might vary substantially and spare UK airport capacity exists for several years.
9. **Competition.** We believe that this will suffer with the financially weak going to the wall, thus resulting in even more market power for Heathrow. There is an increasing case for referral to the Competition and Markets Authority or at least economic regulation that really does prevent Heathrow gaining from a monopoly position. Heathrow has been allowed to make substantial excess profits in the past and the CAA, as regulator, must now ensure that this stops.

Regards



Director LAANC