



Conor McAuliffe
Managing Director
Europe & Industry Affairs

Phone: +353-87-7988813
E-mail: conor.mcauliffe@united.com

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Barbara Perata-Smith
Civil Aviation Authority
CAA House, 45-59 Kingsway
London, WC2B 6TE

Re: CAA Q6 Policy Update

Dear Ms. Perata-Smith,

United Air Lines, Inc. welcomes the opportunity to comment on the CAA's Q6 policy update on the appropriate regulatory arrangements for regulated airports, including London Heathrow. United currently has 238 weekly flights between Heathrow and the United States and has a strong interest in the subject matter of this consultation.

United has a number of preliminary observations. First, the new Civil Aviation Bill before the Parliament provides that the CAA's primary duty is to ensure that its regulatory framework promotes the interests of "passengers and those with rights in cargo" (collectively "passengers"). In fulfilling this duty, the CAA should have due regard to the cost of any proposed regulation. Government imposed cost on airlines and their customers have continued to increase and airlines and their customers can no longer afford to bear these costs. A fundamental question that must be addressed as part of the CAA's primary duty is whether the benefits of a proposed regulation outweigh the costs.

Second, passenger complaints are not always leveled against airports or airlines. Indeed, one of the most common passenger complaints at Heathrow is leveled against the processing of passengers through immigration, a government responsibility. A recent media report refers to the "horrendous" immigration conditions passengers face at Heathrow and depicts "a sea of stressed travellers in [immigration] queues stretching half a mile through the airport." To fulfill its primary duty to passengers, the CAA should focus its attention on improving all services that impact passengers and not simply those that airlines and airports provide.

Finally, United shares the concerns of other airlines about the high airport charges at Heathrow. These charges rank among the highest in the world and, compounded by an exorbitant and rising air passenger duty, directly threaten the viability of many routes. The CAA's passenger research reveals that route availability is the highest passenger priority. In fact, a total of 56 percent of passengers identified route availability as their highest priority compared with only eight percent who choose airport services. Therefore, to promote the interests of passengers, the CAA should endeavour to ensure that airport charges and government duties and fees are kept to a minimum.

The following are United's preliminary thoughts on the specific questions that the consultation paper raises. We look forward to amplifying these thoughts and developing others as the consultation process evolves.

1. How should the CAA approach a strategy for airport licensing?

We agree that the CAA should take an evolutionary approach given the novelty of the licensing system and make incremental changes to the system as experience counsels.

The licence should include two key provisions. First, it should seek to improve service quality and the passenger experience through use of airport-airline negotiated service level agreements. In this regard, it is for the airport and airlines to negotiate such agreements, including resilience plans. The CAA should intervene only where the negotiations fail to yield a positive outcome. Second, the licence should clearly prohibit discrimination against airlines in the provision of infrastructure and airport services. While the airport has an existing duty not to discriminate against or among airlines and the CAA has the authority to enforce this duty, an explicit obligation to mete out equal treatment is worthy of repetition in the licensing conditions.

2. How can the CAA ensure that its review of economic regulation is passenger-focused?

United supports and is actively engaged in the CAA's Constructive Engagement ("CE") process. We believe that there is significant benefit from ongoing discussions between the airlines and airports on the required outputs for the period beyond 2014 and their costs. Fundamental to CE's success is the obligation of airlines and airports to negotiate in good faith in the interests of passengers.

In Q6, the CAA should maintain the clear link between the charges that airlines pay and the quality of services that airports deliver. The current service quality rebate ("SQR") régime improves service quality and benefits passengers. It also clarifies the level of service quality airlines should receive for the airport charges they pay and enables them to better coordinate operational plans. To enhance passenger interests, airlines and airports should be permitted to negotiate bilateral service level agreements that go beyond the service levels required by Q6 SQR.

We agree that the addition of a specific statutory duty in relation to the environment is unnecessary. Other government agencies already have responsibility for achieving the government's environmental agenda. In addition, the CAA will have clear environmental responsibilities under the Civil Aviation Bill to complement the work of these other agencies. In particular, the bill will give to the CAA an important new role in promoting the availability of better public information about the environmental impact of aviation. We share the CAA's view that before exercising this power, it should first consult with stakeholders, issue written guidance and demonstrate that the benefits outweigh the costs.

3. How can regulatory incentives towards service quality be improved?

The introduction of competitive equivalence, i.e., different charges for different levels of services, is impractical and inconsistent with the CAA's statement in ¶6.2 that "complexity should be avoided and incentives should be consistent with better regulation, principles of transparency, accountability, proportionality and consistency." Its introduction would require a definition of competitive equivalence that would add a new level of complexity (and consultations) to the process. It would also require the generation of separate accounts by terminal and a method of allocating historic expenditure, as CAA points out. Finally, it might penalize unjustly airlines that benefit from capex improvements in Q6 that other airlines received but did not pay extra for in Q5.

4. What is your view on the rationale for economic regulation at Heathrow, Gatwick and Stansted?

In United's view, there is a strong case for continued economic regulation at Heathrow beyond April 2014. The airport will continue to possess strong market power and, absent economic regulation, may abuse this position through higher prices and lower service quality to the detriment of passenger welfare. Moreover, sector specific regulation is more effective than general competition law for remedying the potential harm that could be caused by the airport's substantial market power. Finally, for passengers and airlines, the benefits of regulating Heathrow by means of a licence are likely to outweigh the adverse effects.

5. What do you think is the most appropriate form or model for price regulation at each of the airports?

Like other airlines, United supports the current form of price regulation at Heathrow comprising the Regulatory Asset Base ("RAB") Approach and the "single till." The RAB is commonly used by other economic regulators and provides price protection for passengers with a fair return on the value of past capital investments in the airport. We agree with the CAA that it may be appropriate (and indeed consistent with the flexibilities inherent in the new licensing régime) to revisit the price control in exceptional circumstances or events, e.g., where the government makes significant changes to its aviation policy as may well be the case given the consultation the government announced today.

The CAA suggests that it may remove certain activities from the scope of the single till or change the treatment of some charges within the till. United believes that the current scope should not be altered. As currently crafted, the single till is commonplace in competitive airport markets and reflects the reality that airlines are responsible for generating retail revenues at airports and so, in the interests of fairness, these revenues should be used to offset airport charges. Or, as the CAA succinctly puts it at ¶15.44, "The single till approximates to how many airports operating in fully competitive markets work, setting charges to airlines and undertaking investment on the basis of revenues that will be generated from airlines, passengers and retail activities."

If the CAA continues to consider removal of activities from the single till, it should ensure that their removal does not dilute single till revenue. Chapter 6 of the Consultation Paper refers to the possibility of allowing the airport authority to invest in "at risk" capital projects that would be reflected neither in the cap nor in the single till. While it is unclear what projects qualify as "at risk," they should not be removed if they dilute single till revenue and lead to a net increase in passenger charges. By way of one example only, revenues from a retail shop should not be removed where the shop competes with and diverts passenger income from another shop whose revenues fall within the single till.

Finally, the CAA should specify the types of activities that it believes could be removed from the single till and seek stakeholder input. We look forward to further engagement with the CAA on this issue and other potential improvements to RAB design to further passenger interests.

6. What are the priorities for improved efficiency incentives within the price control settlements?

United has a number of initial observations on this issue.

- Heathrow envisages significant capital investment programmes in Q6. This capex needs a stable and understandable regulatory framework.
- In relation to opex incentives, CAA should clarify what qualifies as opex and provide significant incentives to ensure that airports deliver an efficient service.

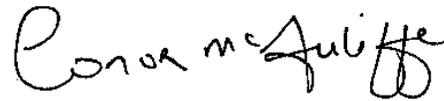
July 12, 2012

Page 4

- Allowance should be made for development projects within the price control. It will be difficult to subsequently obtain agreement to increases in the price cap because of the different interests involved.
- United supports the concept of gain sharing where airlines financially benefit from airport initiatives they propose or assist with.
- The CAA should increase the transparency of information included in the regulatory accounts to allow both airlines and the CAA to better monitor the performance of licensed airports.

We thank you for your kind attention. Please do not hesitate to contact us if you have any questions or require further information.

Sincerely,

A handwritten signature in black ink that reads "Conor McFuliffe". The signature is written in a cursive, slightly slanted style.

cc: Thomas Donovan
Christina Coronios