

From: Neil Spurrier
Sent: 08 February 2021 13:10
To: economicregulation <economicregulation@caa.co.uk>
Subject: RE: Consultation on Heathrow RAB readjustment

Dear Sirs,

Thank you for sending me the update on the economic regulation of Heathrow Airport Limited. At the risk of repeating myself, the situation has not changed. Heathrow remains the most expensive airport, in fees charged, in the World. It has delivered rates of return on investment to its shareholders that simply dwarf what is to be reasonably expected in the investment market. It is hardly acting in the best interests of customers to allow the situation either to continue or to be exacerbated.

We are not able to comment specifically on whether Heathrow's "investors had a clear expectation that the price control would be reopened in the event of exceptional circumstances". What we can say is that the equity in the accounts of the parent company was some £1.6 billion in 2015 and has steadily reduced to £835 million in 2019. The return on this to the investors has consistently been between £300 million and £500 million per year, which represents a disgraceful rate of return without reinvestment or preparation for any downturn. Not only that, but when there have been sales of airports or assets, the proceeds have simply been dissipated to the shareholders rather than re-invested into the business. For example, in the year ending December 2014, the parent company paid out over £1 billion in dividends rather than reinvest the sale proceeds.

All the evidence points to Heathrow going back to this profligate payment of dividends in the future if the RAB is altered, with the net result that the paying customer pays ever more for the service. You refer in Appendix E to Heathrow's worry about having its credit rating downgraded and borrowing becoming more expensive. Heathrow should have thought about this when distributing its assets. Already, the group is exceptionally highly geared, and it is only a matter of time before non-shareholder investors realise that the risk is getting disproportionate to the return. It does customers no favours for the CAA to support this unsustainable approach.

Heathrow shareholders are wealthy and have received dividends way above what is reasonable, quite apart from whether they expect this level of receipt. There is no benefit to customers in allowing these wealthy shareholders to get even more wealthy at the expense of ordinary fare paying customers. It is noteworthy that airlines strenuously oppose a RAB adjustment. We support that but would point out that it will ultimately be the fare paying passengers, who foot the bill in the end. The Government has always stated that Heathrow should be self-financing. To alter the RAB to allow higher charges in a monopoly situation that has been created, is effectively getting the taxpayer to bail out Heathrow.

None of this, of course, deals with Heathrow's environmental effects. It is already polluting most of London to a very substantial level (and way beyond what it admits to) and is totally unprepared for climate change and the requirements for the future. To allow it to raise its charges now just to get through Covid and pay out more to shareholders would be short sighted and fail to consider the investment needed for the future.

Yours faithfully

Neil Spurrier

Member of the Teddington Action Group