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After greetings,

Sub: Response to CAP2098: Economic Regulation of Heathrow Airport Limited

We have read the joint submission of the London (Heathrow) Airline Consultative Committee (LACC) and Heathrow AOC Limited, on behalf of the air carriers operating to Heathrow Airport, urging the UK Civil Aviation Authority to fully reject the request made by Heathrow Airport Limited (HAL), to adjust its Regulatory Asset Base (RAB) by £2.8bn, "to help deal with the circumstances created by the COVID-19 pandemic".

While Qatar Airways agrees with the position of the air carriers as expressed by LACC and Heathrow AOC Limited (LACC/AOC letter), we have written separately to impress upon you, our firm conviction that HAL's request is unreasonable, not in the consumer interest and should be rejected.

Since the beginning of the health crisis created by the COVID-19 pandemic, Qatar Airways' focus has been to serve as a reliable partner in helping people find their way home safely, and to maintain connectivity to our important destinations, including London Heathrow Airport (LHR). Despite numerous international restrictions and abrupt lockdowns, we have attempted to provide our passengers with the certainty that Qatar Airways will continue to fly. This certainty is based on assurances that we have received from our partners and stakeholders in the industry.

HAL's recent request threatens the intricate system of obligations and relationships that Qatar Airways, and other airlines operating to/from LHR, have relied on as the basis of our commitment to our passengers. The current Quinquennium for Heathrow, **Q6**, was initially set for four years and nine months from 1 April 2014 to 31 December 2018, but has since been extended to 31 December 2021.





At the start of the current Quinquennium, all of the stakeholders, including HAL and the CAA, agreed on a formula for funding the efficient operation of, and capital improvements to, Heathrow Airport through the end of 2021. The CAA has consistently noted that its primary duty is to “further the interests of consumers, where appropriate by promoting competition”. As such the interests of consumers should be uppermost in CAA’s consideration of HAL’s request.

Increasing charges during a period where connectivity is drastically reduced and where health related restrictions have resulted in untold losses for consumers who are unable to travel as planned, can hardly be seen as furthering consumer interests. Granting an increase now, will create the perception that CAA is allowing HAL to unfairly shift the risk created by the pandemic on to the consumer.

Interests of Consumers

As the LACC/AOC letter rightly highlights, “the Q6 settlement is a package in which risks and rewards assigned to HAL are carefully balanced among the different building blocks that underpin price control”. As evidence of that careful balance, LACC/AOC points to a statement made by HAL in its November 2019 Debt Prospectus, where they acknowledge that passenger numbers at LHR are subject to risk from:

- *shocks to the macroeconomic environment (including any impact of the UK exiting the European Union, changes in fuel prices and currency exchange rates, inflation, employment and spending) whether affecting the global economy, the UK economy or the Greater London economy in which Heathrow Airport is based;*
- *health scares, epidemics or pandemics across the globe;*
- *the development of efficient and viable alternatives to air travel, including the improvement or expansion of existing surface transport systems, the introduction of new transport links or technology and the increased use of communications technology.*

At the end of the list of risks, partially excerpted above, HAL goes on to state the following:

“The Group, where possible seeks to anticipate the effects of the events noted above in its operations and also maintains contingency plans to minimise disruption and passenger inconvenience . . .”

The above risks are precisely those that have eventuated as a result of the pandemic. i.e. In its 2019 debt offering HAL ensured prospective subscribers that it had considered and prepared for exactly the type of disruption to Heathrow’s operations, that has been caused by the pandemic. Yet HAL now asserts that, contrary to the statements made in their 2019 Debt Prospectus, their contingency plans will not sustain them against the risks to operations that they themselves acknowledged.

As a further assurance to potential subscribers, HAL, in their 2019 Debt Prospectus, discussed the importance of the commercial agreement reached by Heathrow, the airline community, and the CAA, under which Heathrow would offer rebates as an incentive for airlines to make better use of Heathrow’s capacity, *“while also providing protection in the event that passenger volumes were to fall below current levels prior to 2022.”*

Clearly, HAL is not in a position to offer airline rebates considering the scope of the downturn in air travel, but air carriers have continued to honour the regulatory risks they accepted for the current period and we see no reason why HAL should not have to do the same.



Promoting Competition

CAA accepts, and Qatar Airways agrees, that competition is critical to ensure an efficient allocation of resources and continuing improvement in the passenger experience at Heathrow. However, Qatar Airways does not agree that, in light of the COVID-19 pandemic, the salutary effect of competition should be discounted.

The impact of the COVID-19 pandemic has been broadly felt across the global economy, and the aviation industry in particular. Industry analysts have noted COVID's impact on air carriers, airports, and other aviation stakeholders, and CAA would be wrong to dismiss the impact that granting HAL's request may have on competition.

As noted in the LACC/AOL letter, other airports do not have any facility to recover COVID related losses, and compensating HAL for its losses is likely to prevent a competitive market from emerging, because CAA's actions would prefer one market participant, HAL, to all others. In this event, CAA would be acting expressly against its legislative mandate to promote competition.

Conclusion

HAL's request is a classic case of wanting to "have your cake and eat it too". However, the proposed increase in the RAB is not in the interests of consumers, nor does it promote competition. Qatar Airways strongly recommends that HAL's request should be rejected for the following reasons:

- An increase in the RAB is not in the interests of consumers as it would force consumers to pay twice for risks that have been included in the RAB since 2014. HAL should be made to accept the risk that it agreed to under the Q6 settlement.
- The initial proposals for the H7 settlement discussions will be published shortly for a new agreement commencing in January 2022. HAL should be required to follow normal procedure so that we can fully discuss how to address the impact of COVID.
- HAL has publicly confirmed that it has enough liquidity to see them through 2023. In that event, it is even more important for CAA to reject HAL's request and follow the normal procedures for adjustments to the RAB.
- Compensating HAL for its losses by adjusting the RAB is likely to prevent a competitive market from emerging, which expressly against CAA's legislative mandate.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Fathi Atti".

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