NON-CONFIDENTIAL VERSON

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Virgin Atlantic Response to CAP3073: Outcome Based Regulation Mid-Term Review – Initial Proposals

To whom it may concern,

Please find enclosed Virgin Atlantic Airways ("VAA") response to the Civil Aviation Authority's ("CAA") 'CAP3073: *Outcome Based Regulation Mid-Term Review – Initial Proposals*' consultation.

VAA fully supports the statements included in, and aligns with, the LACC/AOC/IATA (the "Airline Community") response to this consultation.

VAA is a UK flag carrier, and the second largest airline operating at London Heathrow Airport ("Heathrow"). VAA operates an exclusively long-haul global passenger network, with [redacted] of its capacity operated out of VAA's primary base in Terminal 3.

Heathrow's Terminal 3 is nearly 70 years old, lacks recent investment, has no forward investment plan and delivers a poor passenger experience. Heathrow Airport Limited ("HAL") acknowledge that "*Service… [at] T3 is not comparable to the rest of the airport*"[1]. Terminal 3 is also acknowledged as having a "*customer satisfaction gap when compared to newer facilities like Terminal 2*", and as the airport's oldest terminal where "*service level metrics lag behind the rest of Heathrow by between 0.03 and 0.13 points*"[2].

The OBR framework

The outcome based regulation ("OBR") framework introduced by the CAA in May 2023, as part of H7, is designed to incentives HAL to maintain and improve the quality of service that it provides to consumers, including through the application of the Measures, Targets and Incentives ("MTI") scheme that "*ensure that the services HAL provides meet their needs in terms of their range, availability, continuity and quality*" [3].

Since the implementation of the OBR regime, service quality and performance at Heathrow has continued to deteriorate. Despite this decline, HAL's OBR performance during this period

[1] HAL Capacity and Long-Term Planning Airline Partners Event pack on 2 December 2024 – page 59
[2] HAL Airline Senior Engagement Day Presentation on 29 September 2023 – 'Passenger Experience' section, page 30
[3] CAP2524B H7 Final Decision Section 1: Regulatory Framework – section 3.1

has been consistently assessed as [good] and has even resulted in the award of performance rewards and incentives. This indicates that the regime is in its current form is at minimum inadequate – but potentially incapable – of ensuring the service quality at Heathrow is maintained or incentivising actual improvement.

The continued deterioration of service quality, consumer experience and critical infrastructure performance at Heathrow is evident from the ongoing baggage system failures particularly at Terminal 3, as detailed below. Additionally, HAL's proposals to lower the capacity of Terminal 3 in the Summer 2025 season indicates they are unable to deliver even an adequate service level to the passengers. For such a situation to arise, which would result in the significant disruption to passengers whose flights will be cancelled, and a material commercial impact on users of airport services at Heathrow, such as VAA, while HAL would continue to achieve a [good] OBR assessment, is unacceptable and clearly not in the interest of consumers.

Operational disruption at Terminal 3

Despite the introduction and embedding of these MTIs, VAA continues to face ever-growing challenges in Terminal 3 with failing infrastructure, and a severely compromised consumer experience.

In 2023, VAA recorded [redacted] incidents of delays in the operation attributable to HAL Airport Facilities failures. In 2024 the trend of these impactful delays continued with [redacted] incidents recorded. These delays result in significant financial, and reputational impact, to VAA.
Examples of these delays in 2024 are:

- [redacted] delays caused by lack of stands or gate issues
- [redacted] delays due to control post congestion resulting in a delay to airside access
- [redacted] jetty failures (totalling [redacted] hours)
- [redacted] significant events to the Terminal 3 baggage system infrastructure failure in 2024 which resulted in [redacted] missed VAA bags. (we estimate [redacted] VAA bags were missed in the first 13 days of 2025 alone due to Terminal 3 baggage system mechanical faults and HAL imposed system capacity constraints)

These experiences stand in stark contrast to HAL's '*Measures, Targets and Incentives Performance Report - December 2023*'[4] which reports all of HAL's targets for Terminal 3, excluding Jetties were met in 2023, with only a single recorded failure for the 2023 year; and HAL's '*Measures, Targets; and Incentives Performance Report - December 2024'*[5] which reports all of HAL's targets for Terminal 3 were met in 2024, with no recorded failures year to date.

The paradox of HAL's own admissions of Terminal 3 failures, combined with VAA's experience, and the contrast with these reports underscores that the current MTIs are not appropriately aligned with the consumer or an airport user's wants or needs. A direct contradiction of the objective of the CAA's OBR framework. For instance, airlines solely shoulder the significant financial burden, and arguably the entire reputational impact, of missed bags. However, under the current MTI scheme HAL has no Baggage Misconnect Rate target let alone a missed bag rebate program.

[4]https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/about/performance/mti/MTI-Report-H7-December-Updated-Results.pdf
[5]https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/about/performance/mti/Dec24-MTI-report.pdf

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Furthermore, it is essential that this declining performance is considered in the context of Heathrow's costs. Heathrow is the most expensive airport in the world, with operating costs only forecasted to increase, and demonstrably failing to provide value for money for either consumers or airport users. We urge the CAA to review its approach to the OBR framework, and the MTI scheme. The minor adjustments at a granular level for a few select targets are insufficient. HAL should not receive financial incentives merely for providing the basic level of service expected of them, the CAA must mandate that HAL delivers the service level befitting a premium hub airport.

We thank the CAA for the opportunity to provide a response on CAP3073 as part of their formal consultation process, and their further consideration of this important matter.

Yours faithfully,

Vari Madore

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