

24 May 2018



## **Airlines UK 24 May 2018: Speech by Richard Moriarty**

1. Good afternoon everyone. I'd like to thank Tim and Airlines UK for organising today's event, which I hope will mark a significant milestone in the journey towards successful capacity expansion. I'd also like to thank the Secretary of State for taking time out of his busy schedule to be with us today.
2. It is really good to see such a broad spectrum of representatives from the aviation community here today, which reflects the importance of this issue.
3. Let me start by saying that the CAA firmly believes capacity expansion is in consumers' interests. It will provide the public and businesses with greater choice and quality of services, better value, and improved reliability.
4. It will also support our economic growth more generally.
5. Whilst the CAA is neutral on the exact location for capacity expansion, as this is a decision for the Government, we welcomed its statement of preference for an extra runway at Heathrow and draft National Policy Statement in February 2017.
6. Subject to Government deciding to lay a National Policy Statement, we hope that we see a successful vote in Parliament before the summer.
7. As some of you know, the CAA has an important technical role to set limits on the amounts that Heathrow Airport Limited can charge airlines and passengers for the cost of building the new runway.
8. We do so with our primary duty to consumers in mind, looking at consumer needs in both the short-term and over the long-term. To help us do this we want to encourage an effective dialogue between the airport and the airline community about what should be built and at what cost.

9. We try hard to oversee this airport-airline engagement in a fair, even handed and independent manner. It is not a popularity contest given the raw competing commercial interests at play.
10. We have been clear that we will look very favourably on commercially led arrangements between Heathrow and the airline community that can be shown to be in consumers' interests. Where agreement cannot be reached we look for parties to give us evidence and careful reasoning before we make a determination.
11. Our ambition is that Heathrow and the airline community work effectively together to agree a scheme design that reflects future consumer interests. And that the scheme is delivered in a timely way with a profile for future airport charges that is both affordable to airlines and consumers, whilst ensuring that the project can be successfully financed with private sector debt and equity.
12. I'm encouraged that this is an ambition shared by both Heathrow and airline community
13. Airlines have been clear, consistent and united in their view that affordable means no increase in airport charges in real terms. Heathrow has responded by accepting this as a challenge – though not a bankable commitment - and the CAA will hold them to account to make sure they approach this challenge for airport charges with energy and good faith.
14. The passenger capacity added to Heathrow Airport will provide a truly transformational growth opportunity for airlines. I'm not aware of any current major runway development in an analogous location around the world that is aiming to do this whilst keeping charges at or near their current levels.
15. But this challenge is very important for Heathrow given it is already one of the most expensive airports in the world.
16. We know from other major infrastructure developments that a large majority of the future costs are 'baked in' in the design phase of the scheme. We have always

taken the view that airlines have a critical role to play in working with Heathrow in coming up with the best scheme design.

17. And airlines have a role in helping us hold Heathrow to account for efficient and timely delivery once the right design is settled.
18. We have set a framework and clear expectations for this airport-airline engagement. We call it the 'Enhanced Engagement' process reflecting the high bar that consumers will expect from the parties to get this right.
19. I want to take this opportunity to thank you all for your efforts so far in engaging in a meaningful way.
20. The frequency and intensity of discussions has required significant resource commitments and energy from both sides. The process of Heathrow and the airline community working together is bearing fruit - albeit I would be the first say we cannot rest on our laurels. Such an unprecedented programme is not always plain sailing, and there have been challenges along the way, from which valuable lessons have been learnt as we move to the next stage of the process.
21. I welcome the fact that the Government recognises the importance of a successful airport-airline engagement process in delivering capacity expansion. This is why the Secretary of State in October 2016 commissioned from the CAA – under Section 16 of the Civil Aviation Act 1982 - a report by the end of April this year assessing how well the engagement process was working.
22. We published several interim reports along the way, which contained our candid and impartial assessment of progress and recommendations to the parties for enhancing the process for the benefit of consumers.
23. With considerable assistance from the airline community Heathrow has – through this process - developed its variant of the scheme known as the Westerly Option – i.e. developing out Terminal 5 first. Compared to the estimates Heathrow provided to the Airports Commission, the latest version has reduced the estimated scheme

cost by nearly some £2.5 billion and has led to more confidence about how future passenger traffic growth can be better realised.

24. All this has helped reduce the estimated profile of future airport charges. Whereas the Airports' Commission had an estimated peak charge of £29 per passenger in 2014 prices (compared to the actual Heathrow charge at the time of about £22), the new scheme design according to Heathrow's own numbers has an equivalent estimated peak charge of £25 per passenger. This is before the CAA has taken its own independent view on the appropriate costs and returns to investors.
25. This is why we said in our final report that an affordable and commercially financeable scheme was possible based on a plausible range of scenarios. If all parties continue to work constructively on efficient design then a flat profile of airport charges in real terms may indeed be possible.
26. But we can't take this outcome for granted. The range of possible outcomes for airport charges remains wide because Heathrow is still at a relatively early stage in the planning process. Large cost items associated with the final terminal designs, land acquisition costs, the M25, surface access etc all remain preliminary not final.
27. This should not surprise us. Heathrow is still in the optioneering stage and a year and half or so away from submitting its planning application.
28. I appreciate this is not a comfortable position as we would all prefer greater certainty including the Airport itself. We need though to be cautious that we don't all rush to premature or spurious certainty – that would seriously undermine confidence later on down the track.
29. We have though been very clear with Heathrow's leadership that our expectation is that they must set out a clear timeline and road map for developing cost confidence. Airlines will then have a better view of what to expect and by when.
30. We expect Heathrow to be relentless in its pursuit of cost efficiency as it seeks to meet the affordability challenge from airlines. Airlines will I know be vigilant about

this and will provide information to us along the way to help hold them to account. We are currently consulting on how we might sharpen the regulatory incentives on Heathrow to deliver on cost efficiency.

31. I need to be clear that cost efficiency is not the same as the lowest cost under any circumstances come what may. We believe that the scheme design has to demonstrably show that it reflects consumers' interests in a value for money way – including consumers' priorities and their preferences.
32. Heathrow must also efficiently meet the obligations and expectations that Government and the planning process place on it for mitigating the environmental and social impacts of expansion.
33. The draft NPS is very clear that in order for Heathrow to proceed it must commit to an extensive package of measures and mitigations.
34. Finally, we must ensure that the scheme can be supported by efficient commercial financing. It is worth remembering that this will be the largest privately financed infrastructure project ever in the UK.
35. The CAA firmly believes that we will only be able to achieve our shared ambition if Heathrow and the airline community continue to work closely together in good faith and in the spirit of partnership.
36. Although the recent process of airport-airline engagement has borne fruit as I've highlighted, more remains to be done to help reinforce our collective confidence that we can realise our shared ambition.
37. This is why we are committed to continuing to oversee and set expectations for the airport-airline engagement process as part of a new Section 16 commission from the Secretary of State.
38. To meet its current planning timetable Heathrow has said it wants to have its preferred scheme design ready in the third quarter of next year before reaching its

final scheme design which it will submit as part of its planning application in the first quarter of 2020.

39. In taking this process forward there are a number of areas which we have already highlighted that need further attention by the Airport and the airline community. These include establishing a new governance protocol and more detailed information on costs and affordability.
40. It also includes Heathrow needing to have a new process to welcome and evaluate ideas from third parties including alternative commercial arrangements.
41. These arrangements present Heathrow with a real opportunity to lever on competitive forces to help deliver efficiently. We have been clear that we will view its approach to engagement on these matters as an important test of its commitment to efficient delivery.
42. Finally, we have been clear with Heathrow that more must be done to ensure that they can demonstrate that the future needs of consumers have been fully considered.
43. I very much welcome that the Government recognises that we are entering a new and critical phase of airport-airline engagement and I'm pleased that the Secretary of State will request a new Section 16 commission from us over this period to advise him on how well it is going. Like before, we will publish reports giving our candid assessment and recommendations.
44. We understand that engagement of this nature is a big investment for all stakeholders. Whilst ensuring we keep up the critical momentum that is required we are committed to ensuring that the process is proportionate and does not place excessive burdens on parties.
45. I look forward to working with many of you as we continue on this journey. There will doubtless be stresses and strains along the way. Some of the conflicting commercial interests may not always be easily reconciled.

46. I would, however, ask us all to keep our eyes on what could be a tremendous prize of major capacity expansion in the London system for the first time in generations.

47. And in working to deliver an affordable and financeable new runway we all have a stake in something broader – something of important national interest that will touch generations to come.

48. It is now my pleasure to introduce and handover to Chris Grayling, our Secretary of State for Transport.