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Sent Via E-Mail

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RE: Airline Community Response to CAP2265E Appendix C: Notice of Proposed License modification to insert a new max yield from 1 January 2022 to 31 December 2022

Dear Paul:

Thank you for the opportunity to respond to your proposal to modify Heathrow Airport Limited's (HAL's) License to impose a max yield for the 2022 regulatory year.

As the 3rd largest airline operating at Heathrow (LHR), paying HAL around £80m a year pre-COVID, American is greatly impacted by the max yield that HAL can collect. Despite the challenges presented by COVID and government-imposed travel restrictions, American has supported consumers by operating multiple flights every single day during the pandemic. We have had the most passenger and cargo traffic of any US airline during COVID.

Firstly, American supports the attached letter submitted on the Airline Community's behalf by IATA and the AOC. In summary, the CAA consultation shows too much deference to HAL's wildly inflated max yield proposal of £29.50 when reasonable adjustments to the inputs would suggest the 2022 max yield should be £19.39, in line with the 2021 max yield. We would note our particular focus on the following points:

1. *Overall level of charges is too high:* £29.50 per passenger represents an over 50% increase in charges vs 2021, which is an unacceptably steep increase at what is already one of the most expensive airports in the world. Other airports in Europe are keeping rates flat or only showing a slight increase; this increase would put LHR further out of step with other comparable hub airports and disadvantage LHR as a viable connecting airport. The max yield the CAA is proposing for HAL does not appear to be in the interest of consumers.
2. *Commercial revenue / Operating expense inputs should be impartial:* The CAA has employed independent advisors CEPA and Taylor Airey to project reasonable Commercial revenue and Operating expense inputs, but rather than use their analysis, the CAA is using a midpoint between this independent analysis and HAL's forecasts. We

would urge the CAA to trust your own advisors and use their numbers rather than give equal credence to HAL's overly pessimistic numbers.

3. *Passenger forecast is outdated:* The proposal for a £29.50 max yield is based on passenger forecasts from April 2021 that reflect a very pessimistic near-term view of travel. Much has changed since then, including significant vaccine uptake and the relaxation of government travel restrictions around the world. As shown in the community letter, more recent forecasts indicate 2022 travel returning to around 90% of 2019 volumes. For American Airlines specifically, our published OAG seat count for January – October 2022 is flat vs 2019 and is 10% higher than 2019 beginning with the Summer 2022 IATA season. We are expecting summer 2022 demand to match (if not exceed) summer 2019; since international travel restrictions into the US were loosened in early November, LHR bookings have exceeded 2019 bookings over the same booking period. We believe it is appropriate for the CAA to substantially increase the 2022 passenger forecast in light of more recent developments since April 2021.

Based on the facts presented above, a significant reduction in charges vs the CAP2265E guidance is warranted in order to protect consumers from being overcharged and to protect LHR from becoming more uncompetitive vs other Europe hub airports. Applying the Commercial revenue and Operating expense inputs from CEPA/Taylor Airey layered over updated passenger forecasts for 2022 gives a max yield of £19.39, which is back in line with this year's max yield. We would urge the CAA to follow the precedent set from Q5 to Q6 and keep the existing 2021 level in place for 2022. This is the right answer for consumers and the right answer based on the evidence.

We appreciate your attention to the points we and the rest of the Airline Community raise and look forward to your response.

Respectfully,



Walter Weems
Senior Manager, Airport Affairs & Properties

cc: Robert Wirick – Managing Director, International Government Affairs
Rhett Workman – Managing Director, Europe & Asia Operations
Amanda Zhang – Managing Director, Airport Affairs & Properties
Philippe Serafino – Director of Operations, LHR Airport