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5 March, 2021

Paul Smith
Group Director of Consumers and Markets
Civil Aviation Authority

By email: paul.smith@caa.co.uk, stewart.carter@caa.co.uk, economicregulation@caa.co.uk

Dear Mr Smith:

Re: Response to – CAP2098: Economic regulation of Heathrow Airport Limited: response to its request for a Covid-19 related RAB adjustment

Thank you for the opportunity to respond to the CAA's consultation CAP2098 on behalf of Etihad Airways ("Etihad").

Etihad operated up to five daily frequencies to Heathrow pre-pandemic, contributing around 1.4% of capacity to the airport and has grown market share year-on-year, since commencement into the market. We have been adversely impacted by HAL's decision to consolidate terminals since May 2020, relocated from our Terminal 4 home into Terminal 2. Etihad continues to operate three daily frequencies presently.

Etihad's overwhelming view is that HAL's request for an adjustment of £2.8 billion to the RAB should be rejected in full. We fully support the arguments raised by IATA and the Heathrow AOC in their letter of 5th March to the CAA on the same topic and highlight, in particular, the following arguments to support our view:

1. <u>It will directly harm to our customers</u>

   To re-open and adjust the RAB would lead to an extended period of unjustified increased airport charges at Heathrow which would directly harm our customers – whose interests it is your principal duty to protect.

   Increased airport charges would stymie demand and hurt consumers ability to fly with Etihad on our global network from Heathrow – our sole network point for London.

   It would also seem, *prima facie*, inconceivable that our customers would be asked to pay more to use Heathrow airport – already one of the most expensive globally – when HAL has issued £3.85 billion in dividends during the Q6 period.

   We also believe that our customers would end up sharing an unequal burden of any increased RAB, in accordance and in line with Heathrow's existing pricing structure, which differentiates between distance of sector, impacting Etihad – as a long-haul carrier – most.

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2. HAL agreed to wear the risk of passenger volumes

In the Q6 settlement period, HAL agreed to bear the risk of passenger volumes in the determination of the WACC, including the accepted "shock factor", which reflected HAL's risk for any downward movement in passenger volumes. This was reflected in what we – as an airline customer – paid them.

Example clearly shows that we – as an airline – are bearing the (negative) consequences of these reduced passenger volumes through the Other Regulated Charges, with a new £8.90 per departing passenger charge, to account for the reduced passenger volumes around, principally, the baggage system.

3. The request does not account for the cost savings HAL has benefited from through the past and current year through terminal consolidation

Etihad continues to bear the negative consequences of being moved terminal at Heathrow. Etihad was one of the largest T4 customers and, importantly, had a premium lounge located there, as part of our guest experience. Unlike T2 and T5 airlines, we are now force relocated to T2 since May 2020, with no reasonable short-term prospect of returning to T4, while HAL declines to share objective thresholds or measures for re-opening terminals. Meanwhile, we continue to pay the same airport charges as all airlines and at the same level as pre-pandemic, supporting HAL's cost savings, not aptly reflected in their focus on predicted revenue shortfall only and resultant request for a RAB adjustment.

4. There is no evidence that absent of a RAB adjustment service levels will deteriorate

The evidence presented in the AOC/ IATA letter clearly demonstrates that service levels are not being impacted currently and the assertions of potential service impairments in 2021 are spurious and absent of evidence. Further, as further noted in the AOC/ IATA letter, there remains a significant financial incentive for HAL to maintain current SQRB scores.

Additionally, there should be no need for material investment during the remaining H7 period given the suppressed passenger volumes shared by HAL and the industry, including Etihad. HAL has publicly stated that they have sufficient liquidity to cover all opex requirements in 2021.

Thank you for your consideration.

Yours sincerely,

John Wright
Vice President Airport & Network Operations
Etihad Aviation Group

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