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Dear Sir/Madam

**Re: CAP 1966 – Economic Regulation of Heathrow Airport Ltd: response to its request for a Covid-19 related RAB adjustment**

We welcome the opportunity to provide our views on the CAA's response to Heathrow Airport Ltd's (HAL) request for a RAB adjustment to address the financial impacts of Covid-19 in 2020 and 2021.

MAG is the owner and operator of Manchester, Stansted and East Midlands Airports. These airports compete with Heathrow to attract passengers and airlines. As such, the CAA's decisions regarding tariffs at Heathrow Airport have a direct impact on MAG's commercial interests.

Along with Heathrow, MAG airports have been severely impacted by the pandemic. MAG airports have taken strong action to deal with the extreme circumstances brought about by Covid-19, including extensive measures to reduce costs and secure additional financing from shareholders through the provision of new equity and the suspension of dividends.

We welcome the CAA's recognition that other UK airports are experiencing the same issues as Heathrow. All UK airports have seen traffic fall to very low levels, and these impacts are enduring across the market whilst the pandemic continues.

The outlook for 2021 is extremely concerning and remains highly uncertain. The Government's announcement this week of a month-long ban on non-work travel presents a further significant challenge for us to address, given our high proportion of fixed costs and the risk that the restrictions on air travel could be extended beyond the beginning of December.

In these unprecedented circumstances, UK airports will need to consider the option of raising charges on a temporary basis to help contribute to a sustainable financial position for next year and remain operational. For non-regulated airports, the focus of this will be forward-looking and focused on minimising losses as far as possible. These airports will not be seeking to recover past losses to compensate shareholders or even reach breakeven for 2021.

We agree with the CAA's assessment that HAL's request to be compensated for past and future losses associated with Covid-19 is not proportionate, and with the rationale given for that assessment. The type of support HAL is requesting is not available to any other UK airport, and the proposed RAB adjustment would have long-term implications for the UK airports market.

In light of the CAA's commitment to look at these issues again and HAL's publicly stated intent to pursue compensation for Covid-19 losses, it will be important for the CAA to give due consideration to the impact on competition and market structure of providing sizeable financial support to an airport with substantial market power, particularly at a time when other UK airports are experiencing significant financial pressures.

Given the obvious nature of these concerns, it is disappointing that MAG and other UK airports were not given the opportunity to contribute views ahead of the CAA's provisional assessment. These concerns are reinforced by the fact that neither the CAA nor HAL have addressed these issues as part of the process to date.

The CAA confirms in Section 3 that it will be doing further work and considering these issues in more detail. It is important that this further consideration includes an appropriate assessment of the impacts of HAL's proposals, including:

- the impact of HAL's proposals on market structure and competition over the short, medium and long term, in particular whether this would be in the interest of consumers (in line with the CAA's primary duty);
- the impact on HAL's financing costs – the option of using the RAB adjustment as the basis for securing lower financing cost over the longer term is not available to other airports and would be a long-term distortion to competition; and
- the impact on HAL's continued ability to invest in 2021 and H7 plus the longer-term support it provides for expansion (as explicitly cited by HAL in 1.4), since this would result in a long-term and enduring market benefit arising from support for a short-term issue.

In considering any support for HAL, the CAA must identify the complementary steps that either it or the Government would need to take to balance any adverse impacts on competition to prevent distortion of the UK airports market, ensure fair competition and protect the interests of all consumers – not just the users of Heathrow Airport.

At the same time, we appreciate that the nature of Heathrow's price cap prevents the airport from making any upwards adjustment to current tariffs to help address fundamental changes in traffic volumes and revenues as a result of the pandemic. In that respect, we recognise there would be a case for the CAA to consider reviewing 2021 tariff levels to enable Heathrow to generate additional revenues in the short-term.

We would request assurance from the CAA that any further consideration of this matter fully accounts for the above issues, especially the long-term impacts upon competition.

We would welcome the opportunity to provide further inputs into the CAA's continued assessment and to be kept up-to-date with progress on this matter.

Yours sincerely



Tim Hawkins  
Chief of Staff, MAG