

Unite The Union Response to the CAA consultation on The Economic Regulation of Heathrow Airport Limited: response to its request for a Covid-19 related Regulated Asset Base (RAB) Adjustment



1. Introduction

- 1.1. This submission is made by Unite, the UK's largest trade union with over one million members across all sectors of the economy, including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union. Of particular interest to this consultation, Unite represents over a quarter of a million transport workers, 90 thousand of which are in the civil aviation sector. This makes Unite the largest trade union in the aviation industry and of special interest it is the largest union at Heathrow Airport.
- 1.2. This response has therefore been submitted on behalf of these thousands of members working for or at Heathrow and those members who are required to fly from the airport.

2. Background

- 2.1. The Covid-19 crisis and related quarantining and travel restriction measures, is without doubt the greatest issue to have impacted the civil aviation industry since just after the dawn of the world's first scheduled passenger airline service and that was on 1st January 1914¹. This impact will be made worse by the announcement by central government that from 1st January 2021 it intends to end tax-free sales in airports of goods such as electronics and clothing for passengers travelling to non-EU countries. This will potentially cause retail outlets in airside areas to rethink the location of their stores, possibly depriving the airport of this lucrative revenue stream. According to Heathrow Airport Limited (HAL), as part of efforts to combat the losses it has sustained, as a direct result of the Covid-19 pandemic, the airport has taken on huge additional debts through refinancing, as well as the extreme action Unite is currently having to respond to, to threaten to dismiss all of its employees and rehire them on lesser terms and conditions.
- 2.2. It has been argued that nobody envisioned a situation where the world would go into lockdown for months on end as a result of a global pandemic but Unite has been very concerned that something of this nature might happen, the only question was when. Epidemics have been progressively getting worse. In 1997 it was Bird Flu (H5N1) which started in Asia and spread throughout the Americas, Asia and even parts of Europe but thankfully never reached the UK. In 2002 and 2004 it was Severe Acute Respiratory Syndrome (SARS or Covid-2). This spread through most of Eastern Asia, Australasia with one outbreak in Canada and 4 cases here. In 2012

¹ This first passenger service operated a flying boat service between St. Petersburg and Tampa, Florida.

Middle East Respiratory Syndrome (MERS or Covid-12) struck affecting the Middle East and Africa which was thought to originate from a strain infecting camels.

2.3. Between 2011 and 2018, The World Health Organisation (WHO) tracked 1,483 epidemics worldwide, including Ebola, SARS and MERS, the reporting in September 2019 that *“the world is not prepared” – “For too long, we have allowed a cycle of panic and neglect when it comes to pandemics: we ramp up efforts when there is a serious threat, then quickly forget about them when the threat subsides. It is well past time to act”*². And then came the Covid-19 pandemic, which first appeared in November 2019.

2.4. It has not only been pandemics that have seriously impacted aviation at Heathrow Airport. As illustrated in Figure 1, in the recent past the industry has been rocked by 9/11, both gulf wars, the global financial crisis & the closure of airspace as a result of the Volcanic Ash cloud from Eyjafjallajökull in Iceland. On each occasion there was a significant hit taken by Heathrow as the number of passenger connecting flights on business connections across the Atlantic from London took a major hit.

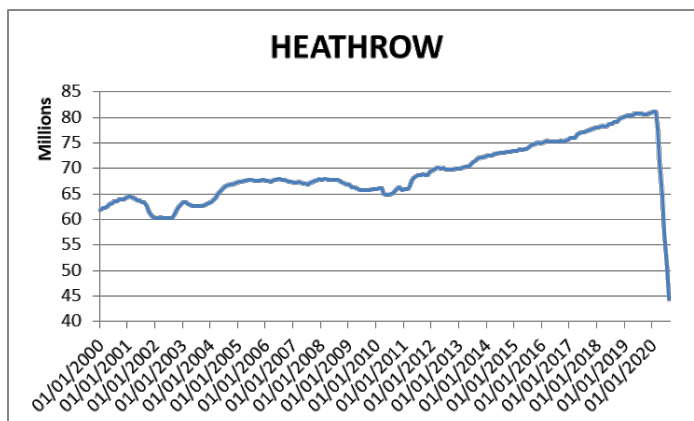


Figure 1 Rolling 12 Monthly Total Passenger Numbers

2.5. None of the above has had an impact anywhere near the size of that seen in recent months from Covid-19, nor does it appear likely that there will be the ‘V’ or ‘U’ shaped recovery that the industry is hoping for. None the less if there was to be such a recovery, the demand for passenger connections and past experience suggests, that such a recovery would be more likely at Heathrow than at any other airport in the UK.

2.6. All of the above globally caused ‘acts of god’ demand that a company makes provision for the next crisis rather than send huge profits into the pockets of shareholders. Unite is not suggesting that shareholders should not receive a reasonable rate of return but looking back over the history of Heathrow since privatisation, it has become a history of debt building on more debt, to finance the organisation with HAL selling off assets to raise capital and at the same time providing shareholders with a very generous almost guaranteed return per annum.

2.7. As stated, the Covid-19 pandemic is the biggest hit the global industry has ever faced, impacting all parts of aviation. Confidence in the ability of airlines to deliver on flights, the destinations to be open to visitors on arrival and for the UK to allow passengers to resume their normal lives on their return, without a quarantine period and without many of the measures introduced by governments in other countries has kept passengers away. News stories about difficulties in obtaining insurance, refunds

² <https://edition.cnn.com/2019/09/18/health/who-pandemic-report-intl-hnk-scli/index.html>

if the airline cannot provide the flights when needed have also hampered sales. The final nail in the coffin has been the resurgence of the Pandemic in the Autumn of 2020 and the prospect that an area or the whole country could return to a total lockdown with only a few days' notice. It is therefore little wonder why the industry in the UK is suffering.

- 2.8. Then on Saturday 31st October, just as the furlough scheme was about to end these fears of a total lockdown came true only this time there was a total ban on all holidays effectively closing all airports to passenger traffic until 5th December or possibly beyond depending on the numbers with the pandemic.
- 2.9. When we thought furlough payments were ending, to help employers, the government introduced a Job Support Scheme (JSS) but the feedback from employers in aviation was that the percentage of employment required and the amount to be paid by employers meant they were unable to access the initial scheme. Then came the announcement of a replacement JSS where the employee will need to work a minimum of 20% of their usual hours and the additional government funding means that aviation is now able to actively look to use the scheme as a follow on to the Coronavirus Job Retention Scheme (JRS).
- 2.10. None the less where an industry is in a lockdown situation like that currently faced at Liverpool John Lennon and which will be faced from the 5th November, workers will not be able to work even one day a week if no passengers are able to use their services. Given that no travel will be allowed into or out of a lockdown or a tier 3 (very high zone), these measures will close all airports meaning that very little work, if any, will be available for some roles – cabin crew for example. In these circumstances, the recognition that training can also be included in the 20% work requirement is critical to the JSS.
- 2.11. Equally with the pandemic impacting nearly every sector of the economy negatively and the closure of transatlantic flight destinations in North America the numbers flying for business has also been heavily impacted. Prior to the pandemic it was uncommon to have employees working from home and conducting meetings via the internet. During the pandemic this has been shown to not only be a required safety measure in many circumstances, but also to be a tool which increases office based worker productivity. For these reasons and those set out earlier, Unite and industry prediction now recognise that the return to 2019 levels of passenger numbers may take years rather than months. The International Air Transport Association, which represents 290 airlines, estimates that air traffic will not return to pre-pandemic levels until at least 2024³.
- 2.12. If under the current government proposals for support for companies under Tier 3 lockdown, financial support has been provided to the restaurants, bars and other hospitality venues at airports but not the airports or airlines themselves, who will also have to close. Thankfully at the point when this consultation is being drafted, Heathrow is not under government orders to close but currently resides in a Tier-2 area.

³ <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>

- 2.13. Under the Heathrow proposals it wishes to increase the charges to each airline based on the number of passengers using the airport. The Airport suggests that this modest increase in passenger charges will help it survive and can be passed on to passengers. In a press statement CEO John Holland-Kaye claimed that whilst the airport was losing about £5 million a day, they had the reserves to survive until 2023⁴. With airlines battling to stay afloat and therefore offering enormous discounts on flights to attract customers, the thought of increasing charges is one which could be the difference between an airline staying afloat and collapsing. Consequently Unite opposes the suggested increase in charges at this time.
- 2.14. As highlighted in the Unite media briefing on Heathrow⁵ Heathrow Airport Limited had debts totalling £15.449 billion against an asset base valued at £15.8 billion, more than twice the level of debt of any of Heathrow's own comparator international airports. Despite this massive debt, Heathrow has paid out more than £4 billion in dividends since 2012⁶, including £100 million earlier this year to shareholders. Just £137 million in corporation tax has been paid over the same period⁷, while 92 per cent of Heathrow's shareholders do not pay UK tax⁸. In addition to the dividends, Heathrow CEO John Holland-Kaye received £2.6m in pay and bonuses and more than £4 million in 2018⁹. Holland-Kaye's remuneration is more than three times that received by CEO's at Heathrow comparator international airports.
- 2.15. Should HAL be successful in obtaining permission to increase charges, Unite suggests that this should be conditional on it retaining staff and their terms and conditions. Unite would also suggest that HAL be required to make better provision for these unexpected but in hindsight highly predictable events by ensuring it was better financed going forward with a greater level of readily accessible reserves. Unite would also call upon the CAA to instigate a far stricter regulatory requirement that ensures that an airport or airline is not carrying such huge levels of debt so that they have the resilience to weather storms better.
- 2.16. Unite strongly believe that cutting pay and engaging in a race to the bottom is no way to run this vital infrastructure, where professional, dedicated and experienced staff play a vital role. Workforce morale at Heathrow and throughout the industry is at an all-time low with a major fear for their futures and ability to pay household bills. The moves by the industry are leading to the serious potential for industrial action as all other routes to an agreed solution are being blocked.
- 2.17. Unite believe that if the charge was applied, it is very unlikely that workers or customers will experience any improvements. Environmentally for example, Heathrow has made investments into reducing emissions from the airport surface fleet of vehicles but to date has not made it a requirement that all vehicles on the airport produce zero emissions, not provided assistance for the suppliers of ground

⁴ <https://www.bbc.co.uk/news/business-54716289>

⁵ <https://unitetheunion.org/media/3411/201007-heathrow-briefing-final-and-corrected.pdf>

⁶ <https://www.thetimes.co.uk/article/forget-the-third-runway-heathrows-payouts-are-on-the-line-7k006fhh3>

⁷ <https://www.mirror.co.uk/news/uk-news/heathrow-airport-owners-120m-tax-14021838>

⁸ https://medium.com/@info_31597/broke-heathrow-should-not-receive-any-taxpayer-cash-efa35cbbd7d5

⁹ According to the 2019 accounts for Heathrow Airport Limited page 103

<https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/reports-and-presentations/annual-accounts/airport-ltd/Heathrow-Airport-Limited-31-Dec-2019.pdf>

services to convert to zero emissions vehicles alternative or zero emissions fuels, raising the sustainability profile of Heathrow and helping tackle the climate change crisis. Should such charges per passenger be requires to invest in such changes then it may be more acceptable. Instead Unite believe that should the increase be permitted it will only result in it being passed on to shareholders by way of dividends, which is not acceptable.

3. Conclusion

- 3.1. Unite opposes the increases in the Regulatory Asset Base charging at this time unless it results in real benefits to the employees and customers, aiding in the recovery and resilience of not just the airport but also the wider industrial community.
- 3.2. The financial history of HAL is not one where future resilience appears to feature as they build the foundations on debt in order to pay out large dividends. Whilst Unite accepts that nobody could foresee the scale of the impact of the pandemic, in hindsight, the signs were there several years before, yet no appropriate resilience was built in to the company finances.
- 3.3. Unite would, however, support such a change if there were guarantees attached that staff terms and conditions were not attacked and their futures were far more secure. Such security would include of course both provisions for the future stability of HAL and the airlines and service providers that are based at the airport.

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5th November 2020

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