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VIA EMAIL:

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Paul Smith
Group Director, Consumers & Markets
Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

Re: Comments from Delta Air Lines regarding proposed H7 Initial Proposals

Dear Mr. Smith:

Delta Air Lines, Inc. ("Delta") appreciates the opportunity to provide comments to the Civil Aviation Authority ("the CAA") regarding the *Economic regulation of Heathrow Airport Limited ("HAL"): H7 Initial Proposals – H7 Price Control Consultation* (the "Initial Proposals"). This letter is the response by Delta to the Initial Proposals, voicing Delta's serious concerns about the proposed H7 rate increases that would cause Heathrow costs to increase significantly, exacerbating Heathrow's position as the world's most expensive airport for commercial airline operations.

To set the context of Delta's response, Heathrow is the third largest long-haul international partner hub in Delta's global network, after Delta's international long-haul hubs at Amsterdam (AMS) and Paris-Charles de Gaulle (CDG). Delta currently serves Heathrow from four (4) hubs in the U.S. (Atlanta (ATL), New York (JFK), Boston (BOS), Detroit (DTW)), delivering approximately 1,000 seats daily to Heathrow. This is a decline of 60% from our pre-pandemic Summer 2019 high of service from seven (7) cities in the U.S., when we offered over 2,300 daily seats, and Delta carried over 1.25 million passengers between the U.S. and Heathrow for full year 2019. In anticipation of continued industry recovery, Delta is planning to increase service to ten (10) daily frequencies between the U.S. and Heathrow for peak summer 2022, with plans to be 90% recovered in the U.S. to London market for the Summer 2022 season compared to 2019.

Delta and VAA launched the carriers' original joint venture in 2013, combining our trans-Atlantic networks between the UK and North America. Delta's partnership with VAA is critical to Delta's London portfolio, providing meaningful access to the #1 international market from the U.S. The combined network reach of the Delta/VAA joint venture covers more than 99% of the overall market demand between the continental U.S. and London. As VAA emerges from its restructuring, Delta will maintain an equity stake, as noted in our [recent announcement](#), which emphasizes the strategic importance of both Delta's close partnership with VAA as well as the joint carriers' service at Heathrow. Overall, the Delta/VAA joint venture, as currently planned, will connect nineteen (19) unique city pairs between the UK and the U.S. (including Edinburgh (EDI) and Manchester (MAN)), and the Delta/VAA joint venture will offer codeshares on over 525 unique city-pairs across the U.S., UK, India, South Africa,

and Israel, thus demonstrating the strategic importance of Delta's relationship with VAA. As we look to 2023, Delta currently expects a 100% recovery of our Heathrow portfolio, including new and returning JV city pairs, although this expectation of 100% recovery could be endangered if the increases envisioned in the Initial Proposals come to fruition.

The Initial Proposals raise numerous complex issues which require careful consideration and analysis. As a starting point for our comments to the Initial Proposals, Delta fully supports the positions outlined in the joint submission by the International Air Transport Association ("IATA") and AOC (the "Airline Community Submission"), as well as the individual carrier submission by Delta's joint venture partner Virgin Atlantic Airways ("VAA Submission").

Rather than restate here the many valid concerns and arguments raised in the Airline Community Submission, and VAA Submission, however, Delta would instead like to take this opportunity to highlight a few top-level concerns that would most impact Delta and, more importantly, Delta's customers.

LHR Fees:

As the CAA is aware, Heathrow is already the world's most expensive airport, and significantly more expensive than all other airports in Europe. Therefore, it is shocking that the proposed provisional range for H7 price control is between £24.50 – £34.40, which would be a staggering and unprecedented 25-75% increase. Such an increase would add significant burdens on consumers and/or negatively impact booking patterns to Heathrow. For example, U.S. originating leisure travelers may very well choose to book-away from London to other European destinations, or to other airports in the UK, simply to avoid paying hundreds of pounds in excessive airport charges to bring their families to London on holiday. This would also have the impact of potentially meaning less choice, connectivity and flights available to UK travelers if flights are redirected to lower cost hubs.

As explained in the Airline Community Submission, with considerable substantiating evidence, the H7 pricing should instead result in a decreased range of charges compared to current levels. The analysis by expert consultants engaged by the CAA, which is also supported by independent consultants engaged by the Airline Communities, indicates appropriate pricing levels significantly lower than what is found in the Initial Proposals.

The CAA's Flawed Analysis:

WACC: There are significant errors in the calculation on the WACC which are covered in detail in the VAA submission. We are supportive of the submission that an appropriate WACC is 1.3-2.8%.

Passenger numbers: By the CAA's own admission the passenger numbers used are outdated and outside of independent forecasts. This has the impact of heavily skewing the range and placing disproportionate cost onto consumers. Delta's experience in 2021 demonstrates and corroborates that the airline industry is clearly already in recovery stage. After suffering record losses in 2020, Delta turned the corner in mid-2021, aligned to a recovery in the U.S. domestic market and indeed was profitable in Q3 of 2021, for the first time since the onset of the pandemic. As outlined above, Delta has substantial growth plans at Heathrow for 2022, expecting to be 90% recovered from 2019 passenger levels, and reaching 100% of 2019 levels during 2023. And together with VAA, we expect future growth to continue beyond 2023.

Operating costs and commercial revenues: The CAA must take better account of the independent advice it commissioned. The HAL Revised Business Plan ("RBP") is inherently biased and has been designed to recover the costs of the pandemic for the benefit of HAL's shareholders.

Paul Smith
Group Director, Consumers & Markets
Civil Aviation Authority
17 December 2021

The CAA's statutory obligation to protect consumers:

The CAA has statutory obligations under Section 1 of the Civil Aviation Act 2012 that apply to the Initial Proposals. The CAA's primary statutory duty is to protect and further the interests of consumers.

Heathrow is already the most expensive airport in the world. As noted in the Airline Industry Submission, the Initial Proposals would cause the cost gap between Heathrow and the second most expensive airport in Europe (Frankfurt (FRA)) to widen to 83% in 2022. As an independent economic regulator, with the statutory duty to protect the consumer, the CAA would fail to meet its obligations if it allows for these unprecedented cost increases. Instead, the CAA must act now to stop Heathrow from abusing its dominant market position to allow HAL to increase its profit margins at the expense of airlines, and ultimately, the consumer.

In summary, Delta strongly opposes the substantial and unfounded increases in the Initial Proposals, as such an increase is neither proportionate nor in the interests of consumers. If the proposed increases prevail, consumers will be the ultimate victims.

Thank you for your attention to these comments. Please let us know if any additional details or other information would be helpful.

Respectfully,

A handwritten signature in black ink, appearing to read "Julie Owen". The signature is fluid and cursive, with the first name "Julie" being larger and more prominent than the last name "Owen".

cc:

Abigail Grenfell – Economic Regulation, CAA
David Kendrick – Economic Regulation, CAA