

Economic Regulation of Heathrow Airport Limited: H7 Initial Proposals - Summary
Response from Richmond Heathrow Campaign (RHC)
17 December 2021

INTRODUCTION

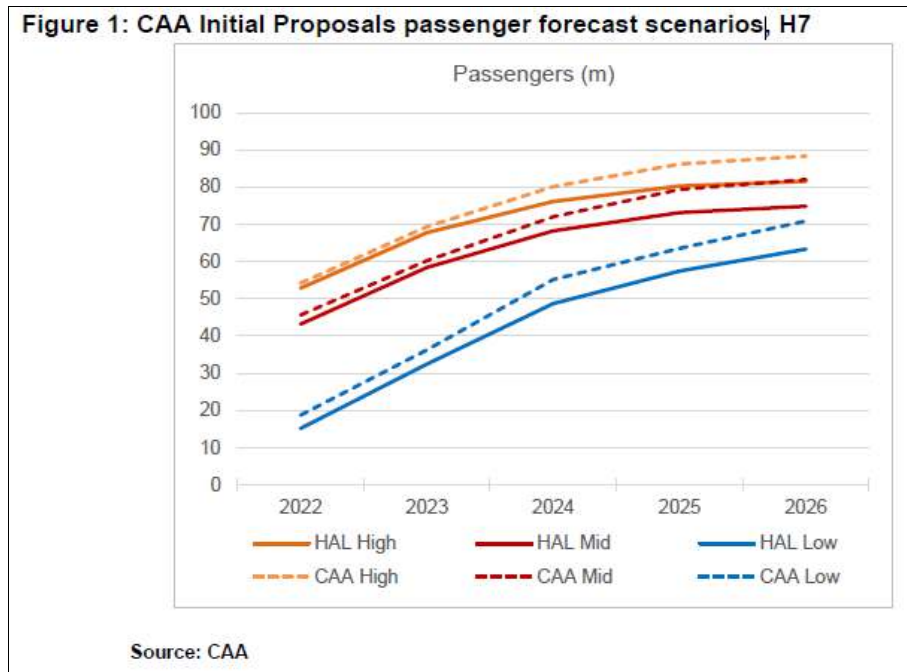
1. This is a written response of the Richmond Heathrow Campaign (RHC) to the CAA's consultation titled '*H7 Initial Proposals - Summary CAP2265A October 2021*'.
2. The Proposals are under challenging and uncertain circumstances of Covid 19, especially in relation to reduced and varying traffic levels and hence a wide range of potential H7 (2022-2026) aeronautical charges per passenger given the relatively fixed operating and capital costs of Heathrow's operations. Clearly, a major issue is the sharing of pandemic historic and future costs and future risks between Heathrow shareholders and consumers (passengers and freight owners) and in turn the balance between financeability and affordability.
3. RHC represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members. The members of our amenity groups are adversely affected by noise from Heathrow Airport's flight paths, poor air quality and road and rail congestion in west London. We acknowledge Heathrow's contribution to the UK economy and seek constructive engagement in pursuit of a better Heathrow. We are an active participant in the Heathrow Community Noise Forum.
4. Our premise is that it would be preferable to aim for a better Heathrow rather than bigger Heathrow and to capitalise on the world beating advantage of London's five airports, in particular by improving surface accessibility to all five airports, which would be a major benefit to users. Our approach is to continue supporting the case for no new runways in the UK and we believe this is well supported by the evidence produced by the Airports Commission and the DfT in relation to the Airports National Policy Statement.
5. Over recent years we have undertaken extensive research on Heathrow and submitted a large number of papers to the Airports Commission, the DfT, CAA and others - all of which can be found at www.richmondheathrowcampaign.org
6. RHC has responded to twelve CAA consultations on economic regulation - CAPs 1510, 1541 in 2017, CAPs 1610 and 1658 in 2018 and CAPs 1722, 1769, 1782, 1812 and 1832, in 2019 and CAPs 1871, 1876 and 1940 in 2020. The responses and other material are on the RHC website.

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Richmond Heathrow Campaign's Response to CAP 2265A

7. We have examined the CAA Summary and associated reports. We are not in a position at this time to comment on the quantification of all of the building blocks (costs, WACC etc) used to calculate the aeronautical charge. So our response is limited to a few specific issues.
8. Forecasts of Passenger Numbers. We refer to paragraph 54 and Figure 1 of CAP 2265A Summary, which we replicate to facilitate our comments. The forecast scenarios used in the CAA's Initial Proposals for H7 are presented in Figure 1, together with comparisons against HAL's updated RBP forecast scenarios.



9. According to the Summary these lead to aeronautical charges in the upper and lower ranges as shown in the following table.

Aeronautical Charges	Source CAA 2265A Paragraph 70				
£/passenger	2022	2023	2024	2025	2026
Upper	51.02	39.46	31.45	28.00	26.97
Lower	38.44	28.22	22.62	19.71	18.74

10. In October 2021 the CAA's published Initial Proposals for the H7 period which we understand were for a provisional range of airport charges of £24.50 to £34.40 for the H7 period and the likely impact of these potential increases in airport charges on consumers, and a holding price cap of £29.50 in 2022. We gather that Heathrow is opposed to the CAA proposals on account of the charges being too low to provide what Heathrow believes is a fair rate of return and support for its debt finance and the airlines are opposed because the charges are too high in their view to the detriment of consumer affordability.
11. RHC believes the CAA's passenger forecasts (7% more than HALs) require in excess of Heathrow's planning limit of 480,000 ATMs a year and that this is a particular issue.

12. We understand that Heathrow will be producing updated Business Plan forecasts in the near future and that the DfT likewise will update its 2017 UK traffic forecasts early in 2022. We would expect the traffic forecasts adopted for H7 not to exceed the planning limit of a 2-runway Heathrow in segregated mode and to take the following points into account. We realise it may take up to 2026 for the industry to recover from the pandemic and that the H7 period may not therefore reflect longer term growth trends.
13. We are facing a climate change emergency, and notwithstanding the need to manage growth as we believe is self evident but also advocated by the Climate Change Committee (CCC) and incorporated into the 6th Carbon Budget, the aviation industry, both in the UK and globally, are strongly against any demand management and instead are promoting what we believe are speculative biofuels as the solution to achieving net zero greenhouse gases.
14. The UK aviation industry and UK Government predict UK unconstrained passenger growth from 292 mppa in 2018 to 478 mppa in 2050, which is an average 1.6% a year or compound 65%. UK aviation is relatively mature and understandably the growth rate is less than the predicted global rate involving less developed nations and markets. But even so, the UK's 6th Carbon Budget deems it necessary, in order to achieve net zero by 2050, to limit growth to 365 mppa in 2050, which is average growth of 0.7% a year or compound 25%. We are confident the UK 6th Carbon Budget is a robust reference for UK aviation. However, after taking into account the significant uncertainties and risks there is no headroom for under-achievement, and the CCC's progress report to the UK parliament in June 2021 indicates shortfalls are already emerging. Even the well considered UK aviation Carbon Budget is at risk.
15. Comparing the UK Carbon Budget's constrained compound growth rate of 25%, 2018-2050, with IATA's global unconstrained rate of 250% over a near similar period, highlights the huge discrepancy and risk with the global growth rate. The UK Carbon Budget includes demand management including no airport expansion and possible cap-and-trade and taxation. It is surely evident from this comparison that the global growth rate is far too high to achieve global aviation net zero by 2050. **Instead of rejecting demand management should not the industry produce growth targets in step with demonstrable mitigation achievements, as the CCC recommends.**
16. In practical terms RHC believes it is essential the carbon cost is internalised to form part of airline ticket prices. The average air ticket price single one way for the UK aviation was around £107 in 2016. We are not suggesting the aeronautical charge be treated as a surrogate pollution tax or indeed that APD be treated anything other than a general tax to meet the UK's fiscal needs. RHC has regularly argued that the aviation industry is substantially under-taxed and that full and fair APD should be much higher than it is currently. The point we wish to make here is that the aeronautical charge and its impact on consumers should be considered in the wider context of ticket prices, which need to rise so as to achieve net zero greenhouse gases but also need to rise to reduce aviation's substantial under-taxation and increase the industry's fair contribution to HM Treasury.
17. Heathrow continue to seek government financial support for the pandemic impact, as discussed in CAP 2265A. But given the point we make above about Heathrow's opposition to internalising the cost of carbon and the long history of under-taxation and subsidy (we mention here the unreasonable exemption of international-to-international transfer passengers from APD), RHC is strongly opposed to the CAA including additional pandemic financial support in Heathrow's economic regulation decision, other than that already agreed.

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