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Consumers and Markets Group

**The CAA**

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Dear Sir

**Response to CAA Consultation on Core Elements of the Regulatory Framework to Support Capacity Expansion at Heathrow (CAA CAP 1541)**

Star Alliance and its members welcome the opportunity to respond to the proposals as outlined in the document above. We have worked with the LACC and Heathrow AOC to formulate a detailed formal response to all the questions raised in the discussion document. We fully support and endorse the contents of that response, which has been sent to you today.

We would also highlight the following key points, which are of particular relevance to Star Alliance and its members:

- As firmly and regularly stated, delivering an affordable programme of expansion is of paramount importance to us. Specifically, we cannot support a scheme unless it demonstrates how LHR can be expanded in the context of no real terms increases in charges in any future year. The regulatory framework put in place should have this as one of its primary objectives.
- We are pleased that HAL has recognised the paramount importance of delivering an affordable scheme and is attempting to develop its Expansion Programme accordingly. However, this must not be to the detriment of projects that, irrespective of the timing and nature of expansion, are essential for LHR. For Star Alliance and its members, the most essential of these projects are a T2 baggage system and T2A-T2B link. We are seriously concerned that as HAL seeks to reduce total airport capital expenditure, it will unreasonably sacrifice the proper delivery of these projects, whilst favouring new projects that fall under the ‘Expansion’ umbrella. These two T2 projects in particular are long overdue, and without their delivery, the first phase of Terminal 2 is incomplete. The failure to deliver these is already having a negative impact on the passenger experience, an impact that will only worsen as time goes by. The regulatory framework should ensure a reasonable balance between expansion and non-expansion projects.
- All parties accept that any regulatory framework is imperfect. Although HAL’s activities as a monopoly are managed to a degree, the evidence shows that for many aspects, it is still able to act in a manner that would not be possible in a competitive

market. The longer the regulatory model continues without significant change, the more HAL is able to exploit the inherent regulatory imperfection. The expansion of Heathrow is a once in a lifetime opportunity to bring huge benefits to the UK and consumers. Similarly, the size of the programme and the vast capital expenditure required to deliver these benefits offers a once in a lifetime opportunity to bring a sea change to the way in which the airport is developed, operated and regulated. We urge the CAA to embrace this opportunity and consider different approaches that potentially give better outcomes for consumers. These different approaches might include (but are not limited to) multiple RABs; design, development and construction by parties other than HAL; ownership and operation of assets by third parties. Such approaches need detailed consideration, but the primary concern at this relatively early stage in the Expansion Programme is that the CAA should not limit future options, but keep an open mind as to the possibilities for a future regulatory framework.

We encourage the CAA to take account of these points and those made in the LACC/AOC response as it begins to firm up its policy recommendations.

Yours sincerely

*Sent by email*

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