

## Chief Executive's Office

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21 December 2018

Dear Rafael, Dale, Mark & Simon

### **Re: Airline Community feedback on the latest Heathrow Expansion developments**

Thank you for your letter dated 7 December 2018.

We acknowledge the concerns you have raised regarding recent developments in the Expansion Programme and recognise their importance to the airline community at this critical phase of the expansion process in working towards a preferred masterplan. Your concerns are consistent with feedback airlines have been providing to us in real time.

Over the last two years, we have reported to the DfT through our Section 16 process and made public that, although we consider HAL has engaged in good faith on what is a highly complex programme, there is a clear need for continuous improvements in the provision of information on costs and efficiency, affordability, and a stable, realistic schedule for production of information that allows stakeholders to plan their contribution to this process. We have been clear with HAL that it needs to enhance collective confidence in its grip on these issues in the lead up to agreeing its preferred masterplan in March 2019. It is welcome that HAL's senior leadership have accepted this challenge.

Your letter raises a number of specific concerns and issues, and it is important that I outline our position on these.

#### **Cost forecasts**

- We welcome the recent steps taken by HAL to start addressing some of the issues around total cost estimates implied by the component studies and in particular, the sharper focus that its leadership have expressed recently on establishing a reasonable capital expenditure forecast to ensure future airport changes are affordable and in line with the Secretary of State's expectation of being close to current levels in real terms. The CAA has been clear with HAL about the importance of this and that it needs to deliver a masterplan that meets these aims. To be clear, we expect HAL to have an intense focus on getting the capital expenditure forecast implied by the component studies, back inside an acceptable envelope in formulating its preferred masterplan by the end of March 2019.
- Notwithstanding the imperative on affordability, we also need to be realistic and take account of the overall complexity and constraints on the wider programme. This means accepting that the surface access targets in the Airports National Policy Statement are important and that the airport expansion cannot impose negative effects on local communities without contributing to acceptable mitigations. Congestion charges may be an important part of this, provided any charges are reasonable and with appropriate treatment of them within the regulatory framework.

### **The provision of information on affordability**

- We agree that HAL's position on the provision of wider information on affordability should be improved (for example, it did not update on its plans with respect to these matters on 14 December as it previously committed to). At the same time, we need to take into account what HAL should be able to realistically achieve in the next few months given that it has not yet reached a preferred masterplan. HAL must retain its intense focus on producing a masterplan with capital expenditure consistent with an appropriate affordability envelope over the next few months. It will then need to address any remaining gaps in information on affordability as a matter of urgency and provide the airline community with a clear timeline about what to expect and by when.

### **Timescales**

- We agree that timescales are challenging, but in the light of the significant benefits to consumers of timely delivery, we may need to accept that the pace in the engagement process may feel uncomfortable at times, albeit we will retain a close eye on making sure HAL does not compromise the quality of engagement, and your continued feedback is very helpful to us in this regard.

I appreciate that while we share many of your concerns on key issues around affordability, efficiency and having an effective engagement process, we are not in complete alignment on all the issues raised in your letter. However, given the critical nature of the next stage in the expansion process, it is more important than ever that all parties remain focused on making progress towards achieving the overall objective: the affordable and timely delivery of capacity expansion that delivers value for money for consumers. The CAA has consistently supported capacity expansion that is in the interests of consumers.

Over the last two years, we have consistently raised the concerns you have set out with HAL, making recommendations on areas of improvement, and will continue to stress the importance of effective engagement, efficiency and affordability, and timely delivery. We will also continue to review progress over the period until HAL reaches its preferred masterplan and we will report to the DfT and wider stakeholders in early 2019 on Enhanced Engagement in the light of the progress HAL makes. As we said in our September 2018 update on Enhanced Engagement, we will consider whether there are further regulatory steps that we should take if there are material failings by HAL in respect to the provision of high quality information on costs, efficiency and affordability.

Finally, I would like to take this opportunity to thank the airline community for their considerable efforts and commitment in engaging with the Expansion Programme over the last two years.

I am copying this letter to your copy addressees.

Yours sincerely



**Richard Moriarty**  
**CHIEF EXECUTIVE**