

Summary of H7 Industry Workshops: Strategic themes for the review of Heathrow Airport's Charges (H7)

10th and 17th March 2016 - Compass Centre, Heathrow Airport

Welcome, overview of Civil Aviation Authority (CAA) document and Q&A

Stephen Gifford, CAA; Rob Toal, CAA

The CAA welcomed attendees and explained that the purpose of the workshops was to provide an opportunity for the CAA to present the key points arising from the consultation and to enable stakeholders to ask questions and provide initial feedback on the issues raised.

The CAA set out the background to the H7 price review including the legislative framework, the policy context, market trends and the interaction with the Government's decision on new runway capacity. The CAA noted that if a government decision was made in summer 2016 on the location of new runway capacity, the CAA planned to publish a Policy Update on regulatory policy relevant to the new runway in autumn 2016.

The CAA described the longer term trends in airport charges, capex and traffic, and showed how HAL's charges compared to other international airports. It confirmed that it did not expect to undertake a market power determination for H7 as there has not been a material change in circumstances.

The CAA introduced the four strategic themes for H7:

- empowering consumers and furthering their interests;
- incentivising the right consumer outcomes;
- increasing airport resilience; and
- promoting cost efficiency and financeability.

The CAA explained how these themes have been developed in light of a number of factors: (i) its statutory duties under the Civil Aviation Act 2012 including the primary duty to further the interests of air transport users; (ii) lessons learned from the Q6 price review; (iii) relevant experience observed in other regulated sectors; (iv) initial stakeholder engagement with the industry; and (v) internal deliberations on the relevant issues including with the CAA's Consumer Panel (CP).

The CAA also restated its commitment to Constructive Engagement (CE), while also recognising the process could be improved.

The audience expressed support for learning lessons from Q6 and the ambition to make improvements to the economic regulation of Heathrow. In response to specific questions on the relationship between the H7 timetable and new runway capacity, the CAA confirmed that there is flexibility in the CAA 2012 Act to extend Q6 by one

or more years. The CAA noted that no decision had been taken on this regard yet, and that it would welcome stakeholders' views on this issue. The CAA added that the decision on whether to incorporate the regulation of the new runway into the H7 timetable would also crucially depend on the timing of the Government's decision in this area.

Heathrow Airport Limited's (HAL) priorities for the review

Andrew MacMillan, HAL; Matthew Greenfield, HAL

HAL welcomed the CAA document and agreed on the importance of the four strategic themes. HAL noted that Heathrow's Airport Service Quality (ASQ) passenger survey scores have been increasing over time and that the airport has recently won a number of awards reflecting an enhanced passenger experience.

HAL set out its aim to give passengers the best airport service in the world and considered that its priorities and vision were overall in line with those of the CAA. HAL expressed a desire not to increase regulatory burdens and complexity, and considered that airspace redesign would be more effective than licence conditions in addressing resilience. HAL agreed that cost efficiency and financeability would be critical to H7 success and that it wants to deliver a high quality business plan first time.

In terms of the timetable, HAL suggested altering this by submitting the initial business plan in June 2017, rather than January 2017, and having a shorter and more high-level CE process for H7. HAL considered this would enable more time to carry out upfront benchmarking and to enable the CCF to be established.

Airlines' priorities for the review

Simon Arthur, Airport Operators Committee (AOC); Andrew Cunningham, AOC

Airlines welcomed the document, and in particular the enhanced focus on consumers, and the proposal to improve the CE process based on lessons learned from Q6.

Airlines noted that passenger service was at the heart of their business and that in many areas they relied upon the airport to provide services on their behalf. Airlines also recognised the constant need for safety and security before introducing their four priorities for H7 as being: 1. passenger-oriented service; 2. resilience; 3. joint work with HAL to provide the right facilities; 4 value and cost-relatedness. Finally, airlines highlighted the vision of the recently established Joint Passenger Experience Board: "Passengers to travel with their bags, on time, every time".

A Consumer Panel perspective (10th March workshop only)

Sarah Chambers, CP

In contrast to Q6 when the CP was established part way through the process, it was noted that the CP had been involved since the early stage of H7 and intended to remain involved throughout the process.

The CP had three priorities for the H7 review. Firstly, to support the establishment of the Consumer Challenge Forum (CCF), as an independent entity, although with a

centre of gravity within HAL. Secondly, to support the move towards outcome-based regulation, and finally to be involved in the development of all of the four identified strategic themes (although the expertise of the Panel was perhaps geared towards the first two areas).

It was clarified that the CP would have a significantly different role from the CCF. The CP plays the role of a critical friend to the CAA and scrutinises the CAA's strategic decisions at high-level, whereas the CCF will be focussed specifically on H7 and thus require different people and skills.

Question and answer session

In response to a specific question, the CAA noted that it would expect the H7 process to incorporate the airlines' consumer intelligence, where they are willing to share it, and that it would expect to the industry to proactively undertake and analyse passenger research to make sure consumers' needs were well understood. The Consumer Panel also confirmed its view that airlines should be hugely engaged with the CCF.

A member of the audience commented that lessons should be learned so that universal design considerations can be incorporated at an early stage for terminal design or refurbishment, as measures designed for PRMs also have a benefit for non-PRM passengers. A short discussion on the trade-offs between design and costs, and between the different competing needs of consumers followed.

Another comment from the audience noted that consumer research should not only be based on complaints, as that did not allow us to fully perceive consumer benefits.

In response to further specific questions, the CAA clarified that it expect the CCF to have a role within CE due to its reporting function, but that it had not yet come to a firm view on whether the CCF's role would be active or as an observer. The CAA said that the CCF will need to work closely with HAL, primarily due to the need to be plugged in to HAL's business planning process, while being independent of all parties at the same time. The CAA said that strong and effective governance was key in resolving the inherent tension here.

The audience commented that stakeholders might have different views on consumers' interests. Several audience members agreed with that, confirming that this is a challenge to be addressed, together with the assessment of consumers' willingness to pay. The CAA highlighted the role of the CCF in ensuring that the outcomes are based on robust consumer research.

The CAA answered a further question on how it would reconcile different views on the proposed regulatory timetable, and said that the final decision on the timetable would be taken after due consideration of the formal consultation responses. This may also include consideration of possibly extending Q6 in light of the runway debate.

Empowering consumers

James Tallack, CAA and Consumer Panel

The CAA set out how consumer engagement would play a central role in H7, reflecting its statutory duties. The CAA said HAL and the airlines were in a better position to gather consumer research and understand consumers' priorities than the regulator. The CAA will receive assurance from the CCF that consumer engagement had been carried out to a high standard and that the findings have been translated appropriately into HAL's business plan. The CAA confirmed that adequate remuneration and governance arrangements would be needed for the CCF, to ensure it will be independent and perceived as such.

The discussion dealt with specific questions around the CCF and its functioning. The CCF will work in a transparent way and not be a representative body for stakeholders. The CAA considers that 5-6 people is the correct size for the group, and we would like HAL and the airlines to agree on appointees with us. Moreover, the CCF would have an assurance role and not be directly involved in carrying out the consumer research itself.

The CCF needs to start at the earliest possible opportunity, ideally by mid-summer. CCF roles will unlikely be full time but will involve a number of intense periods of activity. There was a discussion about whether there was a need for the CCF to take affordability and financeability into account. The CAA explained that it would also like to incorporate the views of cargo users into the process.

Finally, the CAA confirmed that it saw the CCF as adding a lot of value if it were in place from the outset of the business planning process. Therefore, the CAA said it was particularly keen to get stakeholder engagement on this issue in the weeks leading up to the industry seminar as it was likely that the approach would need to be decided shortly after the end of the consultation process.

Incentivising the right consumer outcomes and increasing airport resilience

Beth Corbould, CAA; Emanuela Michetti, CAA; Freya Whiteman, CAA

The CAA illustrated how it intend to take forward the theme of incentives in H7, in terms of consumer outcomes, business plan incentives, and the wider framework for incentives. The CAA explained that it was keen to advance good regulatory practice in airport regulation and would thus welcome stakeholders' views on recent innovations introduced in other regulated sectors in the UK in the area of incentives, such as high-quality business plans and reliance on the assessment of "totex".

On airport resilience, the CAA noted the good progress made by the Heathrow airport resilience group (HARG) as well as other related initiatives. The CAA noted there was already on-going work on UK-wide network optimisation through the CAA policy team, separately from H7. Through H7 we intend to challenge the industry to think more about resilience and to suggest solutions to improve resilience.

An audience member enquired about whether the seminars planned by the CAA would provide more details on the development of the strategic themes. The CAA confirmed that more details would be discussed at the seminars in a roundtable format, and that Working Papers would be shared with attendees in advance to inform the discussion. In response to questions on the incentive schemes that were mentioned during the presentation, the CAA clarified that it wanted to know whether there was appetite for an explicit regulatory mechanism incentivising innovation. The CAA also said that it would be taking the opportunity to review the existing arrangements with respect to risk allocation, for example traffic risk.

On resilience, the audience noted that the issues with on time performance would affect consumer outcomes. It was proposed that any new incentive scheme should not ignore the incentives that result from competition— a single day of disruption means a significant loss of revenues by both the airport and the airlines. The audience agreed that they were fully behind the need to improve on time performance but noted that many of the issues are caused by issues with airspace both in the south east of England and the EU more generally. The audience further commented that it would be important to keep in mind the difference between consumers and local communities, as they would typically have different aspirations in terms of airspace operations. The audience enquired on the possibility of introducing differential charges to incentivise resilience, but urged the CAA to try to simplify the situation, not to make it more complicated. The CAA replied that there was some thinking yet to be done and that it intended to work closely with airport and airlines on potential options.

Ensuring efficiency and financeability

Rob Toal, CAA; Maggie Kwok, CAA

The CAA explained that the fourth strategic theme covered cost efficiency and financeability, and that it was closely linked to all the other workstreams. The CAA proposed to undertake benchmarking studies in two stages: an initial baseline analysis later this year followed by an update towards the end of the H7 process. The CAA listed five potential benchmarking studies and expected the outputs from these would be shared with stakeholders prior to HAL's business plan in 2017.

The audience agreed on the importance of having an informed process for the development of HAL's business plan. It was also suggested that the CAA should provide concrete examples at the seminars for the stakeholders to better understand its expectations on the process leading to HAL's business plan. The CAA confirmed that it will provide information in a suitable format for the seminars.

Round up and next steps

Stephen Gifford, CAA

The CAA noted that there were many areas of commonality across the discussions, but also some areas which would need some more thought and analysis. In particular, the views on the CCF were broadly positive but attendees wanted more information on how the forum would work in practice. The CAA added that it would also give further consideration to the H7 timetable, further to receiving stakeholders' views.

The CAA confirmed that it would welcome formal responses to the consultation by 29th April, and that the seminars would take place in late April / early May.

Appendix 1 – Workshop Agenda

10th March 2016

Time	Item	Lead
1pm - 1:10pm	Welcome	Stephen Gifford / Rob Toal
1:10pm - 1:40pm	Overview of CAA document and Q&A	
1:40pm - 1:50pm	HAL's priorities for the review	HAL representative
1:50pm – 2:00pm	Airline priorities for the review	Simon Arthur
2:00pm - 2:10pm	A consumer perspective	Sarah Chambers, CAA Consumer Panel
2:10pm - 2:30pm	Q&A of issues raised	All
2:30pm - 2:45pm	Coffee break	
2:45pm - 3:10pm	Empowering consumers discussion	James Tallack
3:10pm - 3:35pm	Incentivising outcomes including resilience discussion	Beth Corbould and Freya Whiteman
3:35pm - 3:50pm	Ensuring efficiency discussion	Rob Toal
3:50pm - 4:00pm	Round up and Next steps	Stephen Gifford

17th March 2016

Time	Item	Lead
1:30pm - 1:40pm	Welcome and introduction	Stephen Gifford / Rob Toal
1:40pm - 1:55pm	Overview of CAA document and Q&A	
1:55pm – 2:05pm	HAL's priorities for the review	Matt Greenfield, HAL
2:05pm – 2:15pm	Airline priorities for the review	Andrew Cunningham, AOC
2:15pm - 2:30pm	Q&A of issues raised	All
2:30pm - 2:45pm	Coffee break	
2:45pm - 3:10pm	Empowering consumers discussion	James Tallack
3:10pm - 3:35pm	Incentivising outcomes including resilience discussion	Emanuela Michetti and Freya Whiteman
3:35pm - 3:50pm	Ensuring efficiency discussion	Maggie Kwok
3:50pm - 4:00pm	Round up and Next steps	Stephen Gifford

Appendix 2 – List of Attendees

10th March 2016

Ardila Guillermo - HAL
Arthur Simon - AOC
Baker Simon - Virgin
Beisley Robert - Cathay Pacific
Bryar Lynn - Leonard Chesire Disability
Castiglioni Roberto - Reduced Mobility
Rights
Chambers Sarah- CAA Consumer Panel
Corbould Beth - CAA
Echave Javier - HAL
Edmond Chris - Emirates
Edwards Tony - BA
Gardiner Mark - LACC/BA
Gifford Stephen - CAA
Gloster David - AOC
Goodliffe Mike - CAA
Greenhalgh Kathryn - HAL
Grenfell Abigail - CAA
Hammond Rebecca - BA
Hepburn Richard - HAL
Keller Dale - Board of Airline
Representatives in the UK
Laver Simon- AOC
Macmillan Andrew - HAL
Madhas Manish - HAL
Maxwell Alistair - HAL
McCloskey PJ - CAA
Michetti Emanuela - CAA
Midgley Richard - South African Airways
Milford David - BA
Ng Raphael - Singapore Air
O'Connell Gerry - IATA
Patel Hiten - Virgin
Picken Martin - BA
Raffo Cesar - IATA
Sandbach Jonathan - HAL
Silo Edwina - AOC
Stancer Gillian - Leonard Chesire
Disability
Talbot Simon - HAL
Tallack James - CAA
Toal Robert - CAA
Whiteman Freya - CAA
York Caroline - HAL
Young Allan - IATA

17th March 2016

Adler Alun - BA
Amin Jamili Md - Malaysia airways
Ardila Guillermo - HAL
Brand Karen - Virgin
Buss Tony - IAG
Cunningham Andrew - AOC
De Joux Louis - American Airlines
Echave Javier - HAL
Franco Jo - Virgin
Gifford Stephen - CAA
Greenhalgh Kathryn - HAL
Hart David - BA
Joseph David - Virgin
Khan Samina - CAA
Kwok Maggie - CAA
Lee Jeong Ki - Asiana Airlines
Madhas Manish - HAL
Maxwell Alistair - HAL
McCloskey PJ - CAA
Michetti Emanuela - CAA
O'Shea John - Airline Operators
Committee Cargo
Roberts Peter - IAG
Sandbach Jonathan - HAL
Scoggins Simon - Star Alliance
Stoll Gaby - Lufthansa
Talbot Simon - HAL
Tallack James - CAA
Toal Robert - CAA
Whiteman Freya - CAA
York Caroline - HAL