

Minutes

27th November 2014, 12:00 - 14:00

Meeting title/subject: Future of Airport Charges – Informal Airline Engagement Session #1

Meeting location: Conference Room 1, Heathrow Academy

Chair: Chris Butler, Airline Business Development Director (CB)

Attendees:

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| Robert Beisley | CX | Chris Butler (CB) | HAL |
| Mikael Berg (MB) | SK | Manish Madhas (MM) | HAL |
| Martin Picken | BA | James Jamison (JJ) | HAL |
| Gabriele Stoll (GS) | LH | James Cornelius | HAL |
| Philippe Forest | IATA | Jonathan Pepper (JPEP) | HAL |
| Gilda Ponde (GP) | JJ | Jeremy Pennington (JPEN) | HAL |
| Simone Cruz | JJ | Johanna Negus | HAL |
| Cesar Raffo (CR) | IATA | Andrew Lister | HAL |
| Ken Millar (KM) | EI | Paul Springthorpe | HAL |
| Rod Gander | CAA | | |
| Maggie Kwok | CAA | | |
| Chris Walsh | EI | | |
| David Stephens | KQ | | |
| Gijs van Oostveen (GO) | AF-KL | | |
| Kevin Jones (KJ) | MH | | |
| Peter Jukes (PJ) | BA | | |
| Tony Buss | BA | | |
| Simon Laver (SL) | VS | | |
| Elena Morales (EM) | AV | | |
| Lee Boyle (LB) | QF | | |
| Andrew Cunningham (AC) | AOC | | |
| John Fehrens (JF) | 4U | | |
| Taichi Isogawa | JAL | | |
| Brenda Jones (BJ) | JAL | | |
| Clive Cook | AA | | |
| Louis de Joux | AA | | |

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Notes and Actions:

A slide pack was presented at the meeting ("Heathrow Airport – airport charges structure engagement session 27 Nov 2014"), the slides are attached with the minutes.

| Item | | Action |
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| | <p>Agenda</p> <p><u>Section 1 – Welcome (Chris Butler)</u></p> <ol style="list-style-type: none"> 1. Introductions 2. Purpose of reviewing the structure of charges 3. Process to review structure of charges <p><u>Section 2 – Background</u></p> <ol style="list-style-type: none"> 4. Changes made from the last structural review in 2010 (Jonathan Pepper) 5. Airport charges benchmarking (Manish Madhas) 6. Considerations (James Jamison) <p><u>Section 3 – Discussion on options (Chris Butler)</u></p> <ol style="list-style-type: none"> 9. Objectives for the review 10. Range of options <p><u>Section 4 – Next Steps (Chris Butler)</u></p> | |
| <i>Meeting began – 10:10</i> | | |
| | Section 1 – Welcome | |
| 1 | <p>Introductions</p> <p>CB thanked all those present for attending and introduced the HAL team.</p> <p>CB explained that the scope of the discussions was the <i>structure</i> of the charges, not the price or what should be recovered through airport charges (this has already been decided by the CAA for Q6).</p> <p>CB set out the purpose of the meeting was to collect airline views on the current structure of charges and possible alternatives to re-structure the charges to meet our shared vision. CB emphasised that no decisions were being made at the meeting, but airline views would help inform our thinking as we moved forward.</p> | |
| 2 | <p>Purpose of reviewing the structure of charges</p> <p><i>Presentation by CB</i></p> <p>There were no questions or comments.</p> | |
| 3 | <p>Process to review structure of charges</p> <p><i>Presentation by CB</i></p> <p>CB suggested that attendees break out into three groups to discuss various options and present back to the group.</p> <p>AC suggested that all attendees should hear each other's views and therefore not to break up into different groups.</p> <p>All – agreed.</p> | |
| | Section 2 – Background | |

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| <p>4</p> | <p>Changes made from the last structural review in 2010</p> <p><i>Presentation by JP</i></p> <p>CR asked for more explanation of the rationale of the noise chapters and passenger charges.</p> <p>JP explained that some of the charges were based on a cost analysis/ asset base of the airport. Other ratios were based on judgment in line with the objectives of the review.</p> <p>KM asked for a comparison of the objectives and the results of the charges imposed.</p> <p>JP explained that it is not possible to isolate the drivers of what has actually happened, and whether these were driven solely by the changes made. The slide presented shows the statistics of the trends without making any link to the reasons why.</p> <p>KM commented that if you look at the objectives, and the outcomes, it can't be proven that the objectives have been met. KM explained that he wanted to look at each of the objectives and see if the charges imposed have achieved those objectives.</p> <p>JP considered that this would be difficult to do and noted his comments.</p> <p>KM considered that objectives 1 and 3 were not met.</p> <p>CB disagreed with KM and explained that it is difficult to assess what the impact would have been if HAL hadn't made the changes.</p> <p>KM commented that in relation to the 'safeguarding legal and regulatory compliance' objective, HAL previously had views that HAL had to do certain things to be regulatory compliant but in his view these subsequently fell away. KM therefore queried whether there was any improvement when the outcome is compared with the objective.</p> <p>JP explained that this is an objective that HAL have every time the charges are reviewed as HAL need to ensure that the charges meet any regulatory conditions. It is an underlying consideration.</p> <p>KM queried how the noise chapters worked, i.e., were they based on absolute decibels or was it linked to the size of the aircraft because as he understood it, you get down to the fact that a heavier aircraft can make more noise.</p> <p>CB suggested that this question be added to the notes and HAL would check this with the HAL Environment team.</p> <p>KM commented that one of the objectives was to simplify the charges but that this hasn't happened.</p> <p>CC commented that he thought if we're going to have objectives, there needs to be a way of measuring whether or not we are meeting them.</p> <p>JP explained that even if HAL set targets, it would be very difficult to prove whether one particular element has achieved that, therefore, aligning with the business strategy was key.</p> <p>JF asked for more information about the landing charges because they represent 21% of charges, and it is surprising that 45% of airlines are in the lower charge rate.</p> <p>CB explained that of the landing element, 85% is noise, and 15% is emissions and queried whether it was the noise chapters JF would like more information.</p> <p>JF confirmed that this was the case.</p> | <p>Environment team to provide further information on Noise Chapters</p> |
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| | <p>CB advised that this information would be appended to the minutes.</p> <p>KM queried whether in relation to 'safeguarding legal and regulatory compliance', there were any differences?</p> <p>CB explained that this is something that HAL always want to look at.</p> <p>KM queried whether, if there is a weakness in HAL's current charging HAL would seek to rectify it?</p> <p>CB advised that HAL always seek to be regulatory compliant.</p> <p>KM queried whether, if the CAA had a comment, HAL would try to change the charges because the CAA has made a comment on.</p> <p>CB stated that HAL note this comment.</p> <p>CR requested access to the previous restructure consultation documents as the HAL team had changed over time.</p> <p>MM advised that these were on the website and JF confirmed this. (www.heathrowairport.com/cou - archives folder)</p> <p>KJ queried whether, because airlines seem to be heading towards the noise chapter targets, the new targets will be about emissions, i.e. will there be a more of a balance towards emissions?</p> <p>CB stated that HAL wanted to know whether the airlines thought the 21% was appropriate or not. CB thought that HAL would be keeping an emissions element in the charge but the question was how big this should be in comparison with the noise element and how big the overall percentage should be.</p> | <p>HAL to append further information about Noise Chapters to the meeting minutes when circulated.</p> <p>Note: Benchmarking information is available in the LeighFisher benchmarking reports, which is a paid for publication.</p> |
| <p>5</p> | <p>Airport charges benchmarking</p> <p><i>Presentation by MM</i></p> <p>KM requested that information for Charles de Gaulle airport be included in the comparisons.</p> <p>MM advised that this information had not been publicly available but requested that airlines send any information that could be shared and included in the benchmarking exercise.</p> <p>SL queried whether HAL had any information about the background justification for the different airports' charges.</p> <p>MM advised that the slides contain all the information HAL has. However, MM considered that it is likely that Frankfurt and Amsterdam's charges are related to costs, while others may be based on capacity constraints.</p> <p>CR queried whether the charges included security charges.</p> <p>MM advised that for Frankfurt and Amsterdam they did and asked the room whether there were any other components that would be worthwhile considering in this review.</p> <p>CF asked if HAL would be able to send the information that is behind this.</p> <p>MM confirmed that HAL would share any information that could be shared.</p> | <p>HAL to share what information it can on other airports' charging structures</p> |

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| 6 | <p>Considerations</p> <p><i>Presentation by JJ</i></p> <p>KM highlighted that the CAA have commented on the current Heathrow charges.</p> <p>JJ advised that all these considerations have to be taken in the round and that HAL can't give more importance to one at the expense of another.</p> <p>KM queried whether the 2010 objectives will be the objectives now.</p> <p>JJ & CB advised that these had not been confirmed yet.</p> <p>MB queried whether airlines have to pay penalties for noisier aircraft.</p> <p>JJ advised that the airport has an obligation to provide insulation and noise abatement equipment. HAL's charges at the moment showed that noisier aircraft pay more relative to other aircraft in the same class and there are some out of hours charges for noisier aircraft.</p> | |
| <p>Section 3 – Discussion on options</p> | | |
| 7 | <p>Objectives for the review</p> <p><i>Presentation by CB</i></p> <p>KM commented that HAL could concoct a scheme for one airline and show how one airline would get a brilliant deal if they operated all A380s and were really environmentally friendly, but that this was not in line with the objectives.</p> <p>CB explained that the slides showed the objectives HAL are looking at and below these the various factors HAL want discussion on e.g. what's the best way to promote passenger growth.</p> <p>KM requested that 'not discriminating against any carrier' be included as an objective.</p> <p>CB considered that this was not an objective but an underlying requirement and JJ stated that all HAL's legal obligations would be taken into account and that they always apply.</p> <p>KM commented that HAL had been unreactive to that situation and queried whether or not it was an objective for HAL?</p> <p>JJ advised that it is not an objective, it is an underlying principle that HAL have to abide by.</p> <p>KM queried how an airline would seek redress against HAL if HAL were not compliant.</p> <p>JJ commented that he could not give legal advice to KM.</p> <p>KM stated that Aer Lingus want this to be an objective.</p> <p>CB noted KM's comment and restated HAL's position.</p> | |
| 8 | <p>Range of options</p> <p><i>Presentation by JP and CB</i></p> <p>CR requested that information such as this be sent before the meetings so attendees</p> | |

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| | <p>have time to consider them.</p> <p>CB stated, for clarity, that the engagement session was purely intended to be a discussion about the charges and that HAL were not looking for definitive answers. The intent was not to put anyone in the corner but to hear some discussions on the structure of the charges because the success of HAL and the airlines were mutually tied.</p> <p>CB advised that there would be time for everyone to feedback and that HAL were requesting that airlines came back to HAL with any feedback by 18th December.</p> | |
| | <p>DISCUSSION</p> | |
| | <p>Supporting Passenger Growth</p> <p>KM commented that HAL had previously adopted a RAB based approach and queried whether this would be the case again.</p> <p>JP advised that HAL had indeed chosen to adopt the RAB based approach in its previous review of the structure in 2010 but that this was only one of a number of different justifications that can apply.</p> <p>KM commented that HAL had a RAB-based approach to the process and queried whether HAL would move away from that.</p> <p>JJ advised that cost, environmental impact, etc. were all considerations on the table.</p> <p>JP commented that cost is also not necessarily RAB. He advised that looking at RAB is only one way and that although it's the way HAL looked at things in 2010, it may or may not be the way now.</p> <p>KM queried the 'extreme' positions that had been shown in JP's presentation.</p> <p>CB explained that the point in the extremes was to demonstrate that there are different ways an airport can put together a charge and to stimulate a discussion to seek views from the airlines.</p> <p>KM considered that HAL knew what the impact would be and queried that if this was the case, how was the next hour supposed to run?</p> <p>CB explained that the 'range of options' are not HAL's proposals, just tools to stimulate a discussion structure of charges. CB explained that HAL wanted to take different airline views, from long-haul and short-haul operators, so HAL can understand the different perspectives.</p> <p>MM highlighted that this was the first engagement meeting and there will be a second engagement meeting in January 2015. HAL intends to use this series of discussions, which one of them is today, to help inform HAL's consultation proposal. HAL will formally consult next year when we will put a proposal forward in April 2015 and then we will announce our decision in July 2015. However to help HAL inform that consultation proposal we want to use these meetings to explore different ideas that will help shape our proposal.</p> <p>JF commented that he did have views, and set out that when looking at the extreme scenarios, he did feel that airlines could be discriminated against with either of the extremes and he would therefore like to see HAL be more detailed about the charges, especially in relation to parking charges and landing charges. JF commented that as an operator with smaller aircraft, Germanwings felt that they were subsidising airlines with larger aircraft and so were querying why they fly out of Heathrow.</p> <p>JF commented that if HAL want to encourage incremental growth, it should implement</p> | |

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| <p>new route incentives and stimulate change.</p> <p>JPEN opened this to the group and asked JF what kind of incremental growth he meant.</p> <p>JF considered that there would have to be a 'roll-off' point and airlines would get a rebate based on these.</p> <p>KM suggested that dwell time should be a consideration and that carriers that generate point to point traffic to make transfer traffic sustainable need to be taken into account.</p> <p>JPEN queried whether KM was suggesting HAL use the ratio of transfer to point to point.</p> <p>KM stated that this could be used. He also suggested that where a carrier compliments another airline that transfers the passenger, both airlines should get the overall benefit of the reduced transfer charge.</p> <p>CR commented that any change should reflect the cost base.</p> <p>CB explained that HAL have a maximum allowable yield but ultimately, the way in which HAL use the charge can be changed to facilitate a change in behaviour.</p> <p>CR suggested that HAL need to consider whether something is an incentive or not.</p> <p>CB agreed and stated that if HAL are suggesting things that airlines don't think will make a difference then HAL want to know.</p> <p>CR commented that everything HAL does needs to be related to facts.</p> <p>JPEN queried if CR meant the use of a gain share mechanism.</p> <p>CR stated that his point was that HAL need to refer to costs, facts and hard numbers and ensure that when HAL start creating incentives, they really incentivise something.</p> <p>KM commented that he thought the charges relate to the incentives. For example, carriers whose passengers use lounges use less concourse space.</p> <p>GO commented that KLM were not in favour of any incentive programmes because it sees many airports with a number of incentives which result in almost a specific incentive for different airlines, and they do not tend to work. KLM are in favour of no incentives and lower charges.</p> <p>GP suggested that, in relation to parking, there should be a punctuality rebate or an additional charge if you go over your 15 minutes</p> <p>GO considered that this would cause a lot of discussions but may not change anything as all airlines want to be punctual and try to be punctual.</p> <p>JPEN asked if it was the case that even if HAL had incentives in place, the airlines would not be able to meet them.</p> <p>PJ commented that most airlines do try to run to schedule as it was not in their interest to not do this.</p> <p>JF explained that using Heathrow's infrastructure means there is uncertainty around timing. JF commented that he had to consider block times which are tailor-made for the Heathrow operation which is unusual.</p> <p>GO suggested that if HAL included any incentive for punctuality, HAL should include it</p> | |
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| <p>in an SLA as giving part of the charge back would be unusual.</p> <p>CB agreed with PJ that most airlines do operate on schedule. However, he advised that some, do not.</p> <p>CB queried that if HAL did introduce something on punctuality, how easy would it be to make sure delays are not caused by NATS i.e., is this something that airlines want to look at? Or is there no way this is achievable because there will be too many debates about delays attributable to NATS.</p> <p>PJ commented that he assumed it would be meaningless because airlines would always be trying to point the blame at someone else.</p> <p>LB agreed with PJ and highlighted the fact that there are a lot of flights in the airspace so there are lots of things to delay planes.</p> <p>CB queried how HAL should deal with the delay if it was caused by the outstation.</p> <p>KJ commented that flights could also have been delayed by weather and all sorts of things beyond an airline's control.</p> <p>CB agreed that this was a really important issue for Heathrow to operate to plan. He explained that a lot of costs could be taken out of everyone's businesses if there were not airlines waiting on the runway. However, this is not that easy to do.</p> <p>JF advised that c.20% of delays are from outstations and 80% of delays are from Heathrow. JF raised as a point that this could mean that if an airline did a double rotation out of Heathrow, the delay for the second rotation could be caused by the first rotation out of Heathrow.</p> <p>CB commented that if there are airport infrastructure delays, and there are things HAL can do to help from a process perspective, then HAL want to do them.</p> <p>JPEN started to discuss passenger growth and the type of passenger. He explained that currently, the type of passenger is split between EU and non-EU and queried whether airlines consider an alternative approach.</p> <p>CR commented that the question is, 'is there a difference in processing an EU and a non-EU passenger?' because everything should be based on costs.</p> <p>KM commented that this was well established at CDG.</p> <p>JPEN highlighted that just because something is established does not mean it is right.</p> <p>KM agreed but stated that given the fact that each passenger generates different costs, it makes sense.</p> <p>JPEN asked if a single charge would be helpful to drive passenger growth?</p> <p>KM stated that he did not see the logic in this approach and queried how a single charge could help.</p> <p>JPEN explained that passenger charges could also be structured between economy and business passengers and queried whether this would help growth because it would reduce the costs of economy passengers.</p> <p>KJ commented that HAL may come up against the APD if they did this.</p> <p>KM highlighted that premium passengers will pay more as opposed to a non-premium.</p> | |
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| <p>PK commented that BA's revenue management team believed BA were already charging as much as they could, so if the charges for a club class passenger went up, BA would have to reduce the fare. However, he considered that this kind of change would affect all airlines differently.</p> <p>CR asked on what basis business class and economy passengers should be charged differently?</p> <p>CB commented that you could say the same about taxes.</p> <p>CR stated that was tax and the session was about charges.</p> <p>JPEN and CB stated that they agreed with CR, and asked whether the group considers this merits further review. The consensus appeared that the group did not.</p> <p>PK suggested that in relation to a growth incentive, HAL could reward airlines for filling planes i.e. by having a maximum charge for full aircraft.</p> <p>KM queried if it was the case that lower costs were more likely to influence someone going short-haul than someone going long-haul.</p> <p>JPEN queried that if the answer was yes, what would the group suggest in terms of structuring the charges? As it might be beneficial to look.</p> <p>JF commented that the purpose of travel should be looked at. For example, for business flights, passengers would probably prefer Heathrow because it's closer to London but other passengers would be more likely to look at other options based on costs.</p> <p>KM suggested that it appears long-haul flights were always full but short-haul flights were not. He suggested that it might be possible to stimulate demand for these short-haul flights by reducing the price because a reduction on £100 may have a greater effect than on a price of several hundred pounds.</p> <p>JPEN commented that this was an interesting point and queried how this could be linked to excess capacity.</p> <p>KM commented that it was in nobody's interest to have an empty seat. However, it seemed harder for short term flights to do this because of their relative frequency. KM commented that Aer Lingus liked to think it kept Heathrow relevant by providing a steady flow of passengers.</p> <p>CB picked up on Peter's comment about efficient use of resources and queried to what extent parking charges influenced behaviour.</p> <p>KM considered that the free period gave airlines an incentive to leave but if you haven't got a chance of getting out in the free period then you really don't care about the extra 15mins so the free verses the charge is the big issue.</p> <p>LB commented that airlines were constrained by the operating model. Depending where an airline is operating, they could be constrained by crew, hours.</p> <p>JPEN queried whether anyone would act differently if there was no parking charge.</p> <p>PK suggested that BA would not do as much towing.</p> <p>KM commented that this meant HAL got this wrong because towing shouldn't be driven by a desire to avoid cost but because HAL need that stand for someone else.</p> <p>CB considered that it made sense to have a charge for parking when one looked at the</p> | |
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| <p>space constraint.</p> <p>KM commented that it was madness if BA were towing to reduce cost, not to free up a stand, because towing is inefficient.</p> <p>LB commented that there were some places in the world that one couldn't get to in a 24hour period, so airlines can't turn around, and if airlines want to grow, they may need to leave aircraft there longer than they want to.</p> <p>CB commented that in terms of protecting the infrastructure from prolonged periods of parking, one could argue there is a benefit to having a parking charge.</p> <p>JF highlighted the fact that if HAL take out the parking charge, it's going to be charged somewhere else to airlines. He stated that he did not mind paying parking as long as it related to the length of time airlines used it.</p> <p>CB suggested that this was where the group needed to get to. The group needed to make sure the charges are stimulating use in a positive way.</p> <p>GO commented that, in relation to noise chapters, the margin between chapter 3 and chapter 4 is too high at the moment and that it would be helpful if the charges were proportioned to sooth the difference between different categories.</p> <p>MM commented that the charge is currently, 85% noise and 15% emissions. He stated that emissions were becoming as important and queried whether there was a better way of dividing it.</p> <p>KM commented that he did not understand the reasoning behind these percentages.</p> <p>MM explained that in 2010, noise was important, but air quality is becoming as important.</p> <p>BJ considered that from a public perception both are equally as important and if HAL want to grow Heathrow as an airport, both emissions and noise need to be taken into account.</p> <p>JF agreed with BJ, commented that the difference between chapter 4 and the chapter 4 minus pricing was quite a difference and queried if the difference really justified that kind of difference in pricing.</p> <p>GS requested that actual noise measurements be used rather than basing the charges on the plane's certificate.</p> <p>KM requested a separate, objective workshop on noise chapters because he considered there was not enough understanding in this area.</p> <p>JPEN & CB thanked KM for this comment and suggested that a separate session be set up with HAL's environment team to discuss the noise chapters.</p> <p>PJ commented that other than being a good neighbour, the main reason to improve noise was to help get permissions to grow and it would be helpful to understand this linkage.</p> <p>KM suggested that the separate noise workshop be structured in two halves: the first on understanding (a real education session with the noise team); and the second could be a follow-on debate.</p> <p><i>Post meeting note – workshop arranged for 12th January 2015.</i></p> <p>JF highlighted the effect of the handling agent on the discussions. He suggested that</p> | <p>HAL to arrange a separate workshop on noise chapters</p> |
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| | <p>the usage of the infrastructure could be optimised in the sense of time e.g. by optimising the connection of the jetty. He commented that using T2 affects him because he believes there is a monopoly situation for the handling service and, on top of that, the three wave concept has imposed increased costs.</p> | |
| | <p>Section 4 – Next Steps</p> <p>CB thanked the group for all their comments and highlighted the next steps:</p> <ol style="list-style-type: none"> 1. HAL to circulate the presentations, notes and minutes; 2. Airlines to provide feedback by the 18th of December; 3. Next engagement session on the 20th January. <p>CB also emphasised that HAL are happy to have bilateral discussions on the structure of the charges with any of the airlines to enable HAL to come back with a well-informed proposal. For example, when talking about the passenger element, how would an increase here affect the ticket price? It would be very helpful for us to know how this would impact you as a carrier other than just being an accounting issue.</p> <p>BJ requested that it would be really helpful if HAL could send out information prior to the next session to make it more constructive.</p> <p>CB agreed that HAL would do this if it would help discussions.</p> <p>CR queried what happens after the airlines submit their comments on the 18 December.</p> <p>CB advised that HAL review all feedback and this will help facilitate the next meeting in January 2015 where we can focus on certain areas. HAL will also arrange a session on noise.</p> <p>CB advised that HAL were intending to share feedback provided and requested that airlines let HAL know if they are happy for their information to be shared with everyone or not/or clearly mark confidential material.</p> <p>CR queried whether the 20 January would be a formal discussion.</p> <p>CB confirmed that it would not. The 20 January is a second informal discussion based on feedback provided. The formal element will start next April and the annual price setting consultation will after the structural review decision.</p> <p>CB asked if there were any other questions and drew the meeting to a close.</p> | |
| <p><i>Meeting ended 14:00</i></p> | | |