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3 November 2020

RE: HAL's Application to the CAA for a COVID-19 RAB Adjustment

Dear Mr. Smith,

We are writing to reiterate our opposition to HAL's application to the CAA for a RAB adjustment to compensate for alleged loss of revenues as a result of COVID-19. Before the onset of pandemic, United operated on average 17 daily Heathrow flights. We are committed to restoring this level of service when demand returns and, as a result, we have a strong vested interest in the outcome of this consultation. We support the joint comments that IATA/AOC have submitted but wish to supplement them with brief observations of our own.

We welcome the CAA's position that HAL has failed to adduce sufficient evidence to support a RAB adjustment. We are concerned, however, that the CAA has left open the possibility of ex-post adjustments to the RAB in Q6. Several strong legal and policy reasons counsel against any such intervention.

First, a RAB adjustment would fly in the face of the terms of the Q6 regulatory settlement. The settlement equitably apportioned risks among stakeholders and specifically allocated the risk of traffic loss to HAL. As set out in the CAA's appendix, HAL outperformed its regulatory settlement by £1.11 between 2014 and 2019. The CAA should not now allow HAL to shift responsibility for traffic loss to airlines and consumers to suit its commercial interests. Indeed, given the equitable allocation agreed at the outset, the CAA should eschew a RAB adjustment throughout the entire Q6 settlement period.

Second, there is little evidence to support HAL's claim that service levels will decline in 2020 or 2021 if the CAA does not permit the requested RAB adjustment. HAL has maintained and even improved service quality standards in some areas in 2020. True, HAL has breached standards for security queue times occasionally. However, it acknowledges that lack of funding is not responsible and has provided assurances that its performance will improve. For 2021, HAL provides no evidence to support its claim that punctuality will decline by 60% and security queues will increase by five minutes. Indeed, the claim is hard to square with HAL's own forecast of a 42% reduction in traffic in 2021 versus 2019 levels. Before even considering an adjustment to the RAB, CAA should insist that HAL produce material evidence to demonstrate that service levels will decline to unacceptable levels absent the requested RAB adjustment and provide airlines with the opportunity to comment.

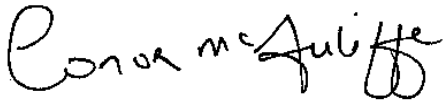
Finally, the airline industry is undergoing an extensive restructuring as a result of a sustained and unprecedented decline in demand as a result of COVID-19 and associated government travel restrictions. By way of one example only that is replicated across all airlines, United's UK-US passenger traffic alone has declined 94% year-over-year and we have furloughed 13,000 employees to date. IATA expects the industry to burn through approximately £60 billion in cash in the second half of

2020 meaning that airlines simplify are incapable of absorbing losses sustained by others in the aviation chain. By contrast, HAL is still capable of raising debt at investment-grade levels and appears to be in a stronger financial position than passenger airlines. In these circumstances, the CAA should not allow HAL to shift risks to airlines and their customers through a RAB adjustment particularly where it would be contrary to the Q6 settlement agreement. Rather, all players in the aviation value chain should take responsibility for the risks they have assumed and work collaboratively to restore consumer and political confidence in air travel.

For the foregoing reasons, we respectfully request CAA to reject HAL's request for a RAB adjustment in Q6.

We thank you for your kind attention. Please let us know if you have any questions or require further information.

Sincerely,



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cc: Abigail Grenfell  
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