



London Airline Consultative Committee (LACC)

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Sent by email to: economicregulation@caa.co.uk and
stewart.carter@caa.co.uk

20th January, 2026

Dear Stewart

Re: Response to CAA CAP3195: Working Paper on Regulatory Models

Thank you for the opportunity to submit views on the future regulatory framework of Heathrow, as set out in CAA CAP3195 (the "Consultation"). We share the CAA's concern about the existing and rising level of airport charges; the risks posed by major capital expenditure projects – specifically HAL's poor track record on capex inefficiency; and many instances of inadequate passenger experience, and as such welcome the CAA undertaking this critical review to address the current failings. We consider this review to be extremely urgent given the size of HAL's proposed H8 capex envelope (and beyond), and indeed we consider such a review to be a prerequisite for airline support for the proposed expansion programme.

Despite Heathrow's charges being the highest in the world for a major international airport, consumers have not received a commensurate level of service or passenger experience as demonstrated in a number of independent studies, including SkyTrax and Airport Council International. Indeed, Heathrow has a track record of having to pay rebates to airlines under the service quality regime as a result of its poor service quality delivery. These poor consumer outcomes are a manifestation of harmful incentives and a regulatory regime that is ineffective at policing it acting on those incentives.

This submission is made jointly by the London (Heathrow) Airline Consultative Committee ("LACC"), and Heathrow Airline Operators Committee ("AOC") and should be read alongside individual airlines, groups and alliances' responses. While not all of our members are direct members of the Heathrow Reimagined campaign, our members do recognise many of the concerns laid out by the campaign.

Case for Change

Given the: (i) high-level of charges already experiencing; (ii) the significant level of investment being proposed by Heathrow; and (iii) inadequate levels of service currently received (and indeed poor and declining value for money for consumers), there is a clear case for fundamental change to the regulatory model under which Heathrow operates. CAA must consider the underlying causes of such poor consumer outcomes – specifically harmful incentives and a regulatory model that is ineffective at policing HAL from acting on those incentives - the evidence presented by the CAA and other parties, as set out within the Consultation, clearly demonstrates that the existing regulatory framework is not fit for purpose, particularly when considering the CAA's primary duty under CAA12 to further the interest of consumers. Without properly understanding the underlying causes for the current poor consumer outcomes, the CAA cannot properly establish the necessary changes.



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The current framework lacks effective incentives to: control costs, ensure efficient delivery and, as such, enables HAL to act on harmful incentives. Without reform the unacceptable status quo will remain. Heathrow's proposed capex envelope for H8 (and beyond), and indeed the proposed expansion plans, will only exacerbate these failings, leading to even higher charges, reduced competitiveness for UK aviation, and ultimately, even worse outcomes for consumers. The costs being proposed in both H8 and for an expanded Heathrow are deeply concerning and it is clear, if left unchecked, risks being prohibitively expensive.

As such, we strongly support the need to reform the current framework. To be clear, fundamental changes are essential to adequately address the failings of the current regulatory framework.

Our Key Positions

- **Protect consumers and airlines:** Expediency must not override the CAA's statutory duties to further the interest of consumers. Government policy cannot be allowed to compromise affordability, transparency or the implementation of the appropriate changes required.
- **We reject light-touch regulation and price benchmarking:** These approaches are inappropriate for setting charges at Heathrow given its significant market power. With regards to price benchmarking specifically, while we accept that it is not an appropriate basis for setting charges directly, it can play a useful role in making judgements about future capex envelopes - it can help ensure that long-term capex envelopes are consistent with improving the attractiveness of Heathrow to passengers and airlines.
- **Introduce competition:** While competition cannot necessarily be introduced at Heathrow for all aspects of airport services, maintaining all decisions and delivery in the hands of a single, monopolist, entity and assuming it will work in the consumer interest is not acceptable or working. We strongly believe that fostering well-functioning competition addresses harmful incentives directly, rather than solely relying on regulation to police the ability to act on those harmful incentives.
- The CAA should identify specific scopes, functions, or infrastructure elements that could be delivered or operated by other parties to improve efficiency and innovation. Competition must include (but not be limited to) design and build of infrastructure, as well as the delivery of terminal services and other on airport activities currently operated by Heathrow.
- **Fundamental regulatory reform and targeted incentives:** The CAA must implement a paradigm shift in capex scrutiny and governance with mechanisms to prevent cost overruns, inefficiencies, excessive profits and service failings. Incentives must be sought to align cost recovery with the delivery of benefits, reward genuine outperformance and penalize failings. Incentives must also create the appropriate behaviours for cost efficiency in Heathrow, rather than incentivizing the growth of the Regulated Asset Base (RAB) and therefore the growth in charges. Further, we believe that CAA itself needs to play a central and controlling role in the oversight of capex scrutiny and governance in the future.
- **Ensure cost-relatedness and discipline:** Costs must be transparent, demonstrably required and charges must remain aligned with actual costs, consistent with ICAO principles.
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- **Affordability at the heart of reform:** Whilst the CAA must have regard for financeability, this is a secondary duty of the CAA's (and subordinate to its primary interest to further the interests of consumers). In the interests of consumers, the framework must ensure a much stronger emphasis on containing the level of charges than seen to date. Ultimately if expansion is not affordable it will not be financeable.

Additional Considerations

Whilst recognising the CAA is responding to Government policy, in its role as an independent regulator it should not rule out exploring alternative financing mechanisms, including government-backed options, to ensure expansion is feasible and continues in the consumers' interest.

Next Steps

We are convinced that, building on the above key positions, a tailored and comprehensive package of reforms focused on of fostering and inserting competition combined with enhanced and effective economic regulation is required.

We support the CAA's efforts to engage with users and urge ongoing, continued consultation post submission as the long list of options is refined. We stand ready to contribute ideas and expertise to ensure Heathrow develops in a way that is efficient, affordable, and sustainable, which in turn will ensure Heathrow can be an attractive hub for aviation to grow and connect trade and people with the UK.

With thanks for consideration on these matters. Should you have any queries in relation to any of the points raised above we remain available to discuss further.

Yours sincerely

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cc: Selina Chadha, Group Director Consumer and Markets, CAA.